

**Under what circumstances do we have to refund the deposit to a potential franchisee who does not go ahead?**

Usually this will be set out in the deposit agreement that you and the potential franchisee sign when the deposit is paid. If you do not have a deposit agreement, I strongly recommend that you have one prepared if you are going to take deposits from potential franchisees. Legally, the deposit agreement can say anything that you want in relation to refund of the deposit as long as it is made clear in advance. However, there are ethical guidelines from the BFA and in addition you should consider that an unfair deposit agreement is likely to deter potential franchisees and prevent them from progressing to the next stage.

Generally, a potential franchisee who does not proceed should get back his or her deposit in full or minus any direct costs that you have incurred. This does not therefore include deductions for your time or for general administration, but could include for example any demonstrated legal costs. Ideally, the maximum amount of deposit that can be deducted should be capped to a modest limit and set out in the deposit agreement.

It is up to you as the franchisor to ensure that you minimise your potential losses and costs in relation to a potential franchisee, so that you do not incur significant costs before a franchisee has committed to the main franchise agreement. For example, it would be inadvisable to order equipment or vehicles for a franchisee until they have signed the main agreement and paid the upfront fee for the package. By minimising your costs, you can ensure that you can cover yourself without having to take an excessive deposit or make large deductions that could damage your reputation.