



**SMALL BUSINESS
LEGISLATIVE COUNCIL**

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ALERT: FTC ANNOUNCES RULE BANNING NONCOMPETES

This Alert is a special update regarding the Federal Trade Commission’s Rule Banning Noncompetes

This afternoon, Tuesday, April 23, 2024, the Federal Trade Commission (FTC) voted 3-2 along party lines to approve its new rule on non-competes. The new rule, which will take effect in 120 days, essentially bans non-competes for all workers, finding them “an unfair method of competition – and therefore a violation of Section 5 of the FTC Act.”

Notably, a non-compete clause is broadly defined by the new rule as a “contractual term or workplace policy that prohibits a worker from, penalizes a worker for, or functions to prevent a worker from seeking or accepting work in the United States with a different person where such work would begin after the conclusion of the employment or operating a business in the United States after the conclusion of the employment.”

The new rule applies retroactively to prior agreements, other than those for senior executives earning more than \$151,164 a year in a “policy-making position.” Employers must provide notice to other workers subject to non-compete agreements that they are no longer enforceable.

Not limited to employees, the non-compete ban extends to independent contractors, externs, interns, volunteers, apprentices, and sole proprietors who provide a service to a person. It does not include non-competes entered into pursuant to a bona fide sale of a business entity or in a franchisor-franchisee relationship.

While the rule is final, expect legal challenges to follow. For example, the U.S. Chamber of Commerce, the nation's largest business lobby, told reporters it plans to sue over the rule, claiming the FTC is not authorized to make this rule, that non-competes are not categorically unfair, and the rule is arbitrary. The Chamber's thoughts were echoed by the opposing Republican FTC Commissioners, who cited concerns about the FTC's authority.

While employers' protectable interests are often a concern, it is important to note that this rule does not ban non-disclosure and confidentiality agreements.

Stay tuned for more information on the developing regulations for non-competes and the legal challenges that will follow.

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