

**State Farm VP Management Corp.**

Home Office, Bloomington, Illinois 61710

August 27, 2010

Elizabeth M. Murphy  
Securities and Exchange Commission  
100 F. Street, NE  
Washington, DC 20549-1090

**Corporate Headquarters**  
One State Farm Plaza  
Bloomington, Illinois 61710-0001

Re: Study Regarding Obligations of Brokers, Dealers, and Investment Advisers (File No. 4-606)

Dear Ms. Murphy:

We appreciate the opportunity to share the views of State Farm VP Management Corp. ("SFVPMC") on the subjects under examination as part of the Securities and Exchange Commission's ("SEC") Study Regarding Obligations of Broker-Dealers and Investment Advisers. We would like to comment on:

- the effectiveness of the existing legal or regulatory standard of care for broker-dealers and their associated persons when providing personalized investment advice about securities to retail customers,
- whether there are any legal or regulatory gaps, shortcomings, or overlaps in legal or regulatory standards in the protection of retail customers that should be addressed by rule,
- the potential impact of imposing a broad "best interest" or fiduciary duty standard on broker-dealers who make recommendations for non-discretionary retail accounts, and
- the potential impact of eliminating the broker-dealer exclusion from the definition of investment adviser under Section 202(a)(11)(C) of the Investment Advisers Act of 1940.

### SUMMARY

SFVPMC believes that the existing standard of care for broker-dealers and their registered representatives ("RRs"), the suitability rule set forth in FINRA Conduct Rule 2310, is effective in protecting investors without limiting consumer access to investment products. SFVPMC believes that the SEC should not impose adviser-type fiduciary duties on broker-dealers making recommendations for non-discretionary retail accounts. SFVPMC supports SEC rulemaking requiring broker-dealers to make additional point-of-sale disclosures regarding the nature of the relationship between a broker-dealer and the customer and regarding conflicts of interest, a change that should address any gaps in consumers' understandings of a broker-dealer's role and any relevant conflicts. SFVPMC does not support eliminating the broker-dealer exclusion from the definition of investment adviser because any de minimis investor protection realized from that change would be outweighed by the cost of additional compliance by broker-dealers like SFVPMC and by possible reduction in investment services offered to our customers.

#### I. Background Information for SFVPMC

SFVPMC is a limited purpose broker-dealer registered with the SEC and FINRA. SFVPMC has been engaged in a securities business through its RRs for more than 12 years. SFVPMC is an indirect subsidiary of State Farm Mutual Automobile Insurance Company ("State Farm Mutual"), a leading

property and casualty insurance company doing business in the United States and Canada. State Farm Mutual and its affiliates sell their insurance and banking products through exclusive independent contractor agents. These same exclusive independent contractor agents may become RRs of SFVPMC, thereby allowing these individuals to market and service SFVPMC's securities products. Currently SFVPMC has approximately 11,000 RRs marketing and servicing its securities products. RRs typically market SFVPMC's securities products to State Farm insurance policyholders in the agent's book of business. SFVPMC's business objective is to provide investment choices for State Farm customers by offering them high quality SFVPMC proprietary or SFVPMC sponsored securities products. SFVPMC's target market includes non-affluent investors. SFVPMC believes that it serves middle market customers who seek assistance to meet their long-term investment needs, but who may not have access to investing through an investment adviser.

SFVPMC currently offers 15 State Farm proprietary mutual funds. The State Farm Mutual Funds include index, actively managed and target date strategies, and include both equity and fixed income portfolios. The Funds do not include any complex hedging strategies or any significant exposures to derivatives. The State Farm Mutual Funds are offered subject to low minimum investment amounts and allow investors to participate in an automatic investment plan with a small \$50 minimum investment, thereby catering to a sizable portion of SFVPMC's target market of non-affluent investors. There are approximately 409,000 existing State Farm mutual fund accounts with an aggregate market value of around \$4.8 billion and an average account size of about \$11,800. SFVPMC also sells interests in a 529 College Savings Plan. For 529 Plan interests, there are about 35,000 accounts with assets under management valued at around \$174 million and an average account size of \$4,900. SFVPMC also services variable insurance policies previously sold by SFVPMC RRs.

- II. SFVPMC believes FINRA's suitability rule, which is the existing broker-dealer standard of care, is effective and is the appropriate standard for RRs who make recommendations for non-discretionary retail customer accounts.

In selling its securities products, SFVPMC and its RRs must comply with FINRA's suitability rule. That rule requires a member or its RR to have reasonable grounds for believing that the recommendation to purchase, sell or exchange a security is suitable for the customer based upon the facts, if any, disclosed by such customer as to his other security holdings and as to his financial situation and needs, including the customer's financial and tax status and his or her investment objectives.

SFVPMC has developed and implemented a securities compliance and supervisory system, including segments of that system designed to achieve compliance with the suitability rule. SFVPMC's compliance and supervisory system includes detailed training for each State Farm insurance agent who wishes to become an SFVPMC RR. Additionally, in selling an SFVPMC securities product, an RR must complete a detailed six-page suitability form on behalf of the potential investor. An RR makes his/her securities product recommendation based upon information the customer shares with the RR and also based upon the RR's knowledge and understanding of the benefits, features and costs of SFVPMC's securities products. Each application and suitability form is subject to review by an SFVPMC securities principal. If there is missing information or if there is an issue regarding the appropriateness of the recommendation, the suitability principal will contact the RR to discuss and to remedy the situation. SFVPMC principals may contact a customer directly to discuss suitability issues. If the suitability principal cannot resolve a suitability issue, the securities product application is rejected. The SEC and FINRA regulate and examine this suitability and principal review process.

SFVPMC maintains a call center staffed by FINRA licensed personnel who can answer RRs' questions about suitability. Moreover, each RR is assigned a securities principal as his/her supervisor. The securities principals report through a chain of State Farm employees to SFVPMC's chief compliance officer. RRs typically are examined annually on-site in their offices by their securities principal to review compliance by the RR with applicable securities laws, including the suitability rule. SFVPMC RRs must complete firm element and regulatory element training to maintain their securities registrations, and suitability frequently is included as a subject in such training.

SFVPMC believes that its rigorous securities sales and compliance processes result in high quality securities recommendations being made by RRs to existing and potential investors. Complying with the suitability rule, RRs focus on their clients' financial situations and investment needs.

SFVPMC has received very few written complaints about the suitability of RR recommendations, and experiences below-industry average redemption rates for the securities accounts/policies that it has sold, facts which provide evidence that its customers are satisfied with the services provided.

Financial intermediaries, like SFVPMC and its RRs, play a key role in helping consumers meet their financial investing needs. With the complexity and proliferation of securities offerings currently available, investors want and need to be able to receive and discuss recommendations regarding securities with financial intermediaries. The suitability rule (including the related systems of internal review and supervision of RRs) recognizes the importance of offering this service to clients, in a manner that protects investors from recommendations that are not appropriate for their particular financial status, risk tolerance, or investment needs. SFVPMC believes that there is no compelling reason to change the broker-dealer standard of care from the time-tested and customer-centric suitability standard.

Changing the broker-dealer standard of care to an adviser-type fiduciary duty may have the unintended effect of reducing the supply of personalized investment advice available to retail investors, especially with regard to the non-affluent market served by broker-dealers like SFVPMC. Registered investment advisers and large wire house broker-dealers typically do not offer investment products to the non-affluent market. Imposing an adviser-type fiduciary standard on broker-dealers may cause some RRs to exit the business, including SFVPMC RRs, out of fear of additional legal liability. We do not believe that an RR, simply by making a recommendation about securities to a customer, should be saddled with potential liability as a fiduciary.

III. SFVPMC acknowledges the benefit to customers of Advisers Act conflicts disclosure.

Although SFVPMC believes that the suitability standard should remain the appropriate standard of care for broker-dealers, SFVPMC would support enhanced conflicts disclosures by broker-dealers who provide personalized investment advice about securities to retail customers. Investment advisers are required to provide Part II of Form ADV, or equivalent information, to their retail customers at or before the establishment of the investment advisory relationship. Part II of Form ADV informs clients or potential clients of the adviser's services, qualifications, and potential conflicts of interest.

SFVPMC would support SEC rulemaking requiring broker-dealers to make point-of-sale disclosures similar to the types of the disclosures made by investment advisers today, where appropriate. Any point-of-sale disclosures required by SEC rulemaking need to be understandable to investors and not

unduly burdensome for investment professionals. Such information should be valuable to all retail customers making investment decisions.

IV. SFVPMC opposes repeal of the broker-dealer exclusion from the definition of investment adviser

SFVPMC does not support repeal of the broker-dealer exception to the definition of investment adviser. Repeal of the broker-dealer exception would impose significant new costs on existing broker-dealer firms that would have to register as investment advisers, design new compliance and supervisory systems and procure investment advisory representative licenses for their existing sales forces. The additional costs would squeeze already thin margins for broker-dealers that serve the non-affluent market, and perhaps make product offerings less available to a market that traditionally has been underserved. Repeal of the broker-dealer exclusion could also result in increased regulatory costs being passed on to customers.

Please feel free to contact me if you should have any questions about this comment letter.

Sincerely,

/s/ Colleen Van Dyke  
Vice President  
State Farm VP Management Corp.