

July 3, 2013

**Corporate Headquarters**

One State Farm Plaza  
Bloomington, Illinois 61710-0001

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

Re: Request for Data and Other Information Regarding the Duties of Brokers, Dealers and Investment Advisers: Release No. 34-69013, File 4-606 (the "Release")

Dear Ms. Murphy:

We appreciate the opportunity to share the views of State Farm VP Management Corp. ("SFVPMC") on the subjects covered by the Securities and Exchange Commission's ("SEC's") Release. In response to the SEC's request, we are providing data about the middle-market retail customers we serve, the services we provide to them, and the regulatory requirements under which we currently operate. We also discuss why we believe that the existing standard of care for broker-dealers and their registered representatives ("RRs"), the suitability rule set forth in FINRA Rule 2111, is effective in protecting investors without limiting consumer access to investment products. We support the SEC's proposal to develop uniform disclosure requirements by broker-dealers and investment advisers regarding (a) the key facets of the services they offer and the types of products or services they offer or have available to recommend; and (b) the material conflicts they may have with retail customers. However, we do not support the SEC's proposed framework for the imposition of adviser-type fiduciary duties on broker-dealers making recommendations for non-discretionary retail accounts. We believe such a rule is unnecessary and could reduce services to the middle market investors we serve.

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 14 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 existing book of insurance business. Our

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. We serve middle- market customers who want help meeting their long-term investment needs, but who may not have access to investing through an investment adviser. SFVPMC reviewed suitability forms prepared by its RRs for new mutual fund accounts opened in calendar year 2012. The following tables reflect the results of that review:

<b>NET WORTH OF INVESTOR AT TIME OF APPLICATION</b>	<b># OF ACCOUNTS</b>	<b>% OF TOTAL</b>
LESS THAN \$24,999	12,619	22%
\$25,000 - \$99,999	16,609	29%
\$100,000 - \$249,999	12,665	22 %
250,000 - \$499,999	6,295	11%
\$500,000+	5,254	9%
NOT ANSWERED	3,930	7%
<b>TOTAL</b>	<b>57,372</b>	<b>100%</b>

<b>ANNUAL HOUSEHOLD INCOME OF INVESTOR AT TIME OF APPLICATION</b>	<b># OF ACCOUNTS</b>	<b>% OF TOTAL</b>
LESS THAN \$50,000	20,767	36%
\$50,001 - \$100,000	24,305	42%
\$100,001 - \$250,000	11,225	20 %
GREATER THAN \$250,000	1,075	2%
<b>TOTAL</b>	<b>57,372</b>	<b>100%</b>

Based upon SFVPMC's analysis, more than 50% of the mutual fund applicants in 2012 had net worth less than \$100,000, and approximately 79% had household income less than \$100,000.

SFVPMC currently offers 15 State Farm proprietary mutual funds (the "Funds" or "State Farm 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 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. Each Fund is offered in multiple share classes, allowing retail investors to decide whether to pay an initial sales or a deferred sales charge. The sales charge schedules applicable to the Funds allow investors to reduce or eliminate the amount of sales charges paid based upon the amount invested. Performance and expenses of the State Farm Mutual Funds are described in the summary sections of each Fund's prospectus.

As of June 18, 2013, there are approximately 455,000 existing State Farm Mutual Fund accounts with an aggregate market value of around \$8.5 billion and an average account size of about \$18,600. Since we last corresponded with the SEC about the standard of care issue for broker-dealers in October of 2010,<sup>1</sup> the average account size for the Funds has grown from approximately \$12,000 to \$18,600, an increase of 54%, in part reflecting market returns.

We believe that SFVPMC RRs have helped their customers meet their investing needs by making recommendations to buy or sell Fund shares. SFVPMC believes that nearly all of the accounts that hold share classes of the State Farm Mutual Funds imposing a sales load are "solicited" accounts. In other words, these accounts have been established as a result of RRs recommendations. SFVPMC does not carry customer accounts. Instead, State Farm Investment Management Corp. ("SFIMC"), as transfer agent to the State Farm Mutual Funds, maintains customer accounts. The only asset which may be included in a customer account maintained by SFIMC is State Farm Mutual Funds. Any investment advice provided by an RR is incidental to the purchase or sale of Fund shares.

Eighty-eight percent of the accounts holding State Farm Mutual Funds are IRAs or tax-qualified employer retirement plans and 12% of the accounts holding State Farm Mutual Funds are taxable. SFVPMC distributes interests in the State Farm College Savings Plan, which has been established under Internal Revenue Code Section 529. With respect to the State Farm 529 College Savings Plan, there are about 58,000 accounts with assets under management valued at around \$307 million and an average account size of \$5,300. SFVPMC also services variable life insurance policies and variable annuities previously sold by SFVPMC RRs.

In the Release, the SEC seeks information about the costs of providing and receiving personalized investment advice about securities. SFVPMC incurs many costs in connection with providing retail brokerage services to its customers, which includes providing those persons with personalized investment advice about securities. Before a State Farm Agent can become an RR, that person must complete a rigorous and extensive training program and pass qualifying exams. Once the person becomes an RR, SFVPMC supervises the person's securities activities and

---

<sup>1</sup> <http://www.sec.gov/comments/4-606/4606-2821.pdf>

provides ongoing training. Accordingly, SFVPMC incurs costs in developing and maintaining a supervisory compliance system and training program. SFVPMC also pays cash and non-cash compensation to its RRs for performing the brokerage services. SFVPMC customers pay for these services with front-end and back-end sales charges and with 12b-1 fees imposed upon various share classes of the State Farm Mutual Funds.

- 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. SFVPMC does not support imposing an adviser-like fiduciary duty on broker-dealers when providing personalized investment advice about securities to retail customers.

In selling its securities products, SFVPMC and its RRs must comply with FINRA Rule 2111 related to suitability, as well as a range of other FINRA and SEC rules regarding disclosures to, and fair treatment of, customers. Rule 2111 requires a member or its RR to have reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities is suitable for the customer, based on the information obtained through the reasonable diligence of the RR to ascertain the customer's investment profile. A customer's investment profile includes, but is not limited to, the customer's age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, risk tolerance, and any other information the customer may disclose to the RR in connection with such recommendation. FINRA amended its suitability rule in 2011 to apply to investment strategy, to clarify that the suitability obligation extends to an explicit recommendation to hold a security or securities and to recognize three distinct suitability obligations within the rule: (a) reasonable-basis suitability, (b) customer-specific suitability, and (c) quantitative suitability. SFVPMC has modified its suitability process to comply with the 2011 amendments. The detailed nature of FINRA's suitability rule provides clear guidelines that can be taught by SFVPMC to RR candidates. Furthermore, the detailed nature of the suitability rule allows RRs to learn and follow standardized processes when providing personalized investment advice about securities to retail investors.

SFVPMC has developed and implemented a securities compliance and supervisory system, including segments of that system designed to achieve compliance with the suitability rule and other FINRA and SEC rules. As discussed above, SFVPMC's compliance and supervisory system includes detailed training for each State Farm insurance agent who wishes to become an RR. Additionally, in selling an SFVPMC securities product, an RR must complete a detailed six-page suitability form on behalf of the potential investor. The suitability form seeks information about the potential investor's investment profile. 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 information is missing or if there is an issue regarding the

appropriateness of the recommendation, the suitability principal will contact the RR to discuss and to address the issue. SFVPMC principals may contact an investor 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 SFVPMC registered representatives who can answer questions about suitability posed by other RRs. Moreover, each RR is assigned a securities principal as his/her supervisor. These securities principals report up through a chain of State Farm employees to SFVPMC's chief compliance officer. RRs are examined periodically 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. The scope and detail of conduct rules governing every aspect of a broker-dealer's communications with and recommendations to a customer, buttressed by rigorous internal supervisory requirements and detailed examinations by FINRA and the SEC, exceed anything on the investment adviser side.

We believe that our rigorous securities sales and compliance processes result in high quality securities recommendations being made by RRs to existing and potential investors. In complying with the suitability rule, RRs focus on their clients' financial situations and investment needs. We are helping an increasing number of State Farm customers meet their savings, education and retirement needs through recommendations by SFVPMC RRs with respect to the securities products that they offer.

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 under FINRA's suitability rule.

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 regulatory review, 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. RRs already are subject to extensive regulation and supervision by the SEC and FINRA. Imposing an adviser-type fiduciary standard on broker-dealers may cause some broker-dealers and RRs to exit the business as a result of increased compliance costs or out of fear of additional legal liability.

For example, the fiduciary duty rule as described in the Release leaves substantial uncertainty as to whether an RR can operate, without fear of additional liability, under the existing business model through which SFVPMC offers a limited range of proprietary mutual funds to its customers. The Release simply repeats the standard in Section 913 of Dodd-Frank that the offering or recommending of only proprietary or a limited range of products would not, *in and of itself*, be considered a violation of the fiduciary standard of conduct, leaving open the possibility that such recommendations could be a factor in determining a violation of the “best interest” standard. Indeed, it is unclear whether SFVPMC RRs would be expected to research alternatives to the proprietary mutual funds offered, in order to determine whether their recommendation is in the customers “best interest,” even if they cannot sell such alternatives to customers. Nowhere does the Release discuss the extent of the inquiry an RR must undertake regarding a particular customer to determine “best interest” versus suitability, or the criteria the SEC or courts might apply to determine that, while a product might be suitable for a customer, it nonetheless is not in the customer’s “best interest,” based on other alternatives. The suitability standard provides clear guidelines under which both the RR and those who supervise the RR can determine the appropriateness of a product for the customer. The proposed “best interest” fiduciary standard offers uncertainty, with no additional benefit to the investor.

III. SFVPMC acknowledges the benefit to investors of a potential requirement to provide a written general relationship guide.

Although SFVPMC believes that the suitability standard should remain the appropriate standard of care for broker-dealers, SFVPMC supports SEC or FINRA rulemaking requiring broker-dealers and investment advisers to provide disclosure to retail customers at or before establishment of the relationship of the nature of the services proposed to be provided and all material conflicts of interest with the retail customer, which could be made through a general relationship guide. The general relationship guide could describe, among other things, the firm's services, fees and scope of services with retail customers, including: (a) whether advice and related duties are ongoing or limited in time, or are otherwise limited in scope (e.g., limited to certain accounts or transactions); (b) whether the firm only offers or recommends proprietary or other limited ranges of products; and (c) whether, and under what circumstances, the firm will seek to effect principal trades with a retail customer. SFVPMC favors a layered approach to such disclosure. With a layered approach, SFVPMC will provide a general relationship guide summary to the retail investor which includes a link or citation to resources where the potential investor can receive more detailed information about the nature of the relationship.

The general relationship guide needs 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 supports a broker-dealer's current ability to pay non-cash compensation in connection with the sale of securities.

In the Release, the SEC advised commenters to assume that the receipt or payment of non-cash compensation (e.g., trips and prizes) in connection with the provision of personalized investment advice about the purchase of securities would be prohibited. SFVPMC opposes the adoption of any such regulation. SFVPMC RRs also sell life insurance products and receive non-cash compensation in connection with those sales. These types of sales incentives are well established in the insurance, securities and other industries as a reward for our most productive representatives. Of course, an RR must strictly adhere to his/her obligation to recommend only securities and investment strategies involving securities that are suitable for the customer, notwithstanding any compensation – whether cash or non-cash – received by the RR. With suitability as a foundation, we believe non-cash compensation can serve as a cost effective supplement in motivating RRs to help customers make informed investment decisions. Potential conflicts of interest related to the payment of non-cash compensation may be disclosed in the general relationship guide, providing the investor with information to evaluate the conflict of interest. Moreover, the SEC's outlawing the receipt or payment of non-cash compensation in connection with the provision of personalized investment advice about the purchase of securities would be inconsistent with FINRA's current approach to non-cash compensation in Rule 2320 for variable insurance products and Rule 2830 for investment company securities. Those rules limit, but do not ban, the receipt or payment of non-cash compensation in connection with the provision of personalized investment advice about the purchase of securities.

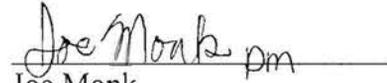
V. SFVPMC supports pre-dispute arbitration agreements between broker-dealers and their customers.

In the Release, the SEC seeks information regarding the claims process against broker-dealers and investment advisers. SFVPMC can provide the SEC information concerning the claims process against it, but SFVPMC does not have information concerning the claims process against investment advisers or other broker-dealers. When a person purchases Fund shares, the person must complete an account application. The account application includes a pre-dispute FINRA arbitration agreement providing that by signing the agreement all parties, including the investor and SFVPMC, relinquish the right to sue each other in court, including the right to trial by jury. SFVPMC believes that FINRA arbitration is a more efficient and cost-effective process for resolving conflicts – both for the customer and the broker-dealer. SFVPMC resolves most customer complaints without FINRA arbitration.

Ms. Elizabeth M. Murphy  
July 3, 2013  
Page 8 of 8

SFVPMC appreciates the opportunity to provide these comments. Please feel free to contact me if you should have any questions about this comment letter.

Sincerely,

A handwritten signature in cursive that reads "Joe Monk pm". The signature is written in black ink and is positioned above a horizontal line.

Joe Monk  
Senior Vice President  
State Farm VP Management Corp.