

August 30, 2010

VIA ELECTRONIC MAIL

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

Re: SR-FINRA-2010-034

Dear Ms. Murphy:

State Farm VP Management Corp. (“SFVPMC”) appreciates the opportunity to provide comments to the SEC on the above referenced FINRA rule proposal concerning member reporting requirements. SFVPMC is a member of the State Farm Group of companies, which also includes the nation’s largest automobile insurer and the nation’s largest insurer of homes. SFVPMC’s registered representatives sell mutual funds and college savings plans, and service variable products issued by affiliated and unaffiliated insurance companies.

State Farm’s insurance subsidiaries currently engage over 17,000 exclusive, independent contractor insurance agents to sell property, casualty, life, health and other insurance products in all 50 states and Canada. Over 10,000 of these agents are also registered representatives of SFVPMC, along with several thousand licensed agent staff and SFVPMC personnel. The typical registered representative derives the majority of his or her income from the sale of property, casualty and life insurance products, and a much smaller percentage from the sale of securities products. Our multi-line agency force services over 78,000,000 separate insurance policies.

SFVPMC supports FINRA’s efforts to develop a consolidated rulebook that streamlines existing rules. We respectfully suggest, however, that certain provisions of proposed Rule 4530 be reconsidered and modified to address the concerns outlined below.

1. The requirement to report all insurance-related external findings is unwarranted, would be burdensome, and fails to protect investors.

General; external findings.

We believe that the requirement to report purely insurance-related external findings is unwarranted, would impose severe burdens on the resources of insurance-affiliated broker-dealers and on FINRA, and would fail to improve the protection of investors. Insurance companies and their agents are already subject to comprehensive, state regulation, and virtually every aspect of the insurance relationship is subject to multiple “laws, rules, regulations and standards of conduct.” It is doubtful that FINRA would derive any substantial benefit from reviewing reports of violations of this web of regulations. This is especially true of the many external findings that are administrative in nature with no involvement of customers. For example, in many states a broker-dealer would be required to report external findings related to an insurance agent’s failure to timely meet continuing

education requirements. Likewise, in one state, a report could be required based on the failure of an insurance agent to submit a state required survey. Clearly these types of reports are not going to further FINRA's goal of investor protection. In addition, this type of reporting would be almost entirely duplicative as they are already required to be reported as part of the U4 process. To help alleviate some of the burden created by this rule proposal, SFVPMC recommends limiting the reporting of external findings to those that derive from a transaction with a customer. This would help reduce the number of external findings reported that would otherwise consume valuable resources at both FINRA and member firms.

External Events: Civil Litigation and Arbitration

In its recent revised rule proposal FINRA has attempted to address some of the concerns of member firms by limiting the reporting of civil litigation and arbitrations to those that are "financial related". While SFVPMC appreciates FINRA's effort to address the concerns of member firms, SFVPMC believes the proposed revision falls short of providing relief and instead creates additional ambiguity. This is especially true when it comes to purely insurance related litigation. In its revised rule proposal, FINRA has not provided any guidance on what firms should consider "financial related". To further complicate matters, FINRA clarified that the reporting required for any claim for damages be limited to those that are "financial" or "transactional" in nature. In making this clarification FINRA reasoned that "transactional claims by customers, including *contractual* disputes, are relevant to its programs since they may reveal misconduct, such as an impermissible customer loan." Unfortunately, this does little to clarify that reporting requirement of member firms, especially those with an insurance affiliate. Nearly all insurance related litigation and claims for damages are contractual in nature in that insurance products are contracts. Therefore, FINRA's attempt to limit the reporting for purely insurance related litigation would seem to be ineffective because of the requirement to report any transaction related to claims for damages. Because of this, SFVPMC would like to see FINRA better define the types of insurance related litigation and claims for damages that need to be reported.

Customer Complaints

SFVPMC also has significant concerns with FINRA's clarification of 4530(c). Regarding the requirement to report written complaints involving a person associated with the member, FINRA clarified their position by stating; "However, if a member has engaged, or has sought to engage, in securities activities with a person, then any written complaint from that person is reportable under the proposed rule, regardless of whether it relates to non-securities products." The first issue is how to determine whether the member has "sought to engage" a person in securities activities. If "sought to engage" includes a registered representative asking an insurance customer about mutual funds or mailing securities advertising, then SFVPMC would likely be required to consider every insurance customer of its registered representatives as a person it has sought to engage. Therefore, if the agent involved in a complaint is a registered representative, SFVPMC would be required to report all written complaints dealing with auto or homeowners claims, premium issues, health, and life insurance. Many of these complaints are not even required to be filed by the governing body charged with regulating the products to which the complaints relate. Even if FINRA's clarification of 4530(c) were limited to securities customers only, SFVPMC would still be concerned with the number of potential non-securities related complaints it would have to report. SFVPMC strongly believes that FINRA should consider modifying this rule proposal

in a way to reduce and/or eliminate the number of immaterial insurance related complaints that would otherwise need to be filed by member firms.

Supervisory control system.

In addition to the excessive volume of reporting, the expansion of these rules to purely insurance-related events could require broker-dealers to greatly expand their supervisory control systems beyond their securities business in order to ensure that all insurance-related reportable events have been identified. For example, it is conceivable that an entirely new reporting infrastructure would have to be developed and implemented across the organization. Hundreds or even thousands of employees who currently have no connection to SFVPMC's securities operations would have to be trained to identify and properly report these occurrences. In addition, SFVPMC would have to routinely test and monitor these processes to ensure their effective operation. Even if such a system were implemented, the broker-dealer would likely not have the means or authority to require any changes to the operations of its affiliated insurance companies. We question FINRA's authority for imposing this regulatory burden on members¹, and whether the benefit justifies the significant cost that would be required.

We also note that such reporting obligations are contrary to NASD's/FINRA's published guidance regarding the scope of Rule 3070. In a January 2, 2002 NASD Staff Interpretive Letter, the NASD staff adopted the position that Rule 3070(a)(8) did not require an insurance-affiliated broker-dealer to report a non-securities related settlement under an insurance policy that exceeded \$15,000. The staff recognized that such a settlement "concerns an associated person's dispute with an automobile insurance policyholder over an automobile insurance policy, relating neither to securities activities nor allegations of theft or misappropriation of funds or securities or forgery. Therefore the settlement is beyond the purview of Rule 3070(a)(8), and it need not be reported." The NASD staff further noted that "[t]he purpose of Rule 3070 is to permit the Association to separately collect data on a timely basis to substantially enhance regulatory initiatives relating to the detection of sales practice violations through the early identification of problem registered representatives."² It is our view that the great majority of the reporting that will be generated as a result of expanding the rule to cover insurance-related events will not further this purpose. We respectfully request that this staff position, relied on for many years by SFVPMC and other insurance affiliated broker-dealers, not be abandoned in the rulebook consolidation process.

2. The requirement to report internal conclusions should be eliminated.

We believe that the requirement to report internal conclusions of violations would be difficult to implement and would greatly expand the volume of reporting by member firms. This would be the case whether or not insurance-specific matters are included in the definition, but

¹ Section 15A of the Exchange Act expressly prohibits national securities associations from "regulat[ing] by virtue of any authority conferred by this title matters not related to the purposes of this title...." 15 U.S.C. § 78o-3(b)(6). We also note, that the proposed changes to NASD Rule 3010(a)(2) offered in Notice to Members 08-24 would have a similar effect of expanding members' supervisory responsibilities beyond the securities business. That rule proposal has met significant industry opposition on similar grounds.

² Citing Exchange Act Release No. 36211, 60 FR 48182 (September 18, 1995) (Approving Release). A copy of this Staff guidance has been attached for your reference.

the problem is magnified by the inclusion of insurance matters. For example, in order to better serve policyholders, State Farm regularly conducts insurance-specific internal reviews of agents, and in so doing may make findings regarding its agents' compliance with company policies and procedures and/or insurance regulations. Case-specific conclusions on regulatory issues are also routinely made in a number of different departments within the insurance organization, such as internal audit, our corporate law department and field supervisory offices, to name just a few.

The wording of the rule will also pose serious interpretive challenges, such as defining the term "conclusion." We further note that the exception to filing contained in Supplementary Material .01 is vague, and because of the conservative reporting posture of many firms, this exception may provide relief in only the narrowest of circumstances.

To the extent that internal reviews lead to significant issues such as disciplinary action or termination, those internal reviews should already be reported to FINRA under current NASD Rule 3070(a)(10) or Form U-5.

Lastly, the requirement will likely have a chilling effect on firms' compliance efforts, and will increase the exposure of member firms to litigation by their registered representatives identified in such filings. For all of these reasons, we believe the requirement to report internal conclusions should be eliminated.

SFVPMC appreciates the opportunity to comment on this important rule proposal. If you have any questions or would like to request clarification, please contact the undersigned at 309-735-2997

Sincerely,

Kristin Bulls
Products and Broker-Dealer
Compliance Director