

January 16, 2009

VIA ELECTRONIC MAIL

Marcia E. Asquith
Office of the Corporate Secretary
Financial Industry Regulatory Authority
1735 K Street, NW
Washington, D.C. 20006-1500

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

Re: Regulatory Notice 08-71: Request for Comments on Proposed Consolidated
FINRA Rule Governing Reporting Requirements

Dear Ms. Asquith:

State Farm VP Management Corp. ("SFVPMC") appreciates the opportunity to provide comments to FINRA on the above referenced FINRA notice concerning proposed consolidated FINRA rules governing 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 sell or service variable products issued by affiliated and unaffiliated insurance companies.

State Farm Mutual Automobile Insurance Company and its insurance subsidiaries currently engage over 17,000 exclusive, independent contractor insurance agents to sell property, casualty, life, health and other insurance products across the United States and in 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 expansion of insurance-related reporting triggers is unwarranted, would be burdensome, and fails to protect investors.**

General; external findings.

We believe that the expansion of existing Rule 3070 to cover several new categories of purely insurance-related events 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, which include many relatively minor or technical rules. In addition, many insurance-affiliated broker-dealers already administer discipline against their registered representatives when they become aware of certain violations of insurance-specific laws and regulations and report such issues where applicable under current NASD Rules 3070(a)(3), 3070(a)(4), 3070(a)(10) or on Form U-4 or Form U-5. As a result, requiring an additional level of reporting on these matters will only increase the demands on the human and financial resources of already strained compliance departments without increasing investor protection.

Filing copies of litigation complaints.

We also request that FINRA avoid expanding proposed Rule 4530(e)(3) to include insurance-related civil litigation. Given the litigious nature of the insurance business, SFVPMC is regularly named in lawsuits by insurance policyholders having no connection to the securities business. We believe this often occurs because the policyholder's attorney is simply unfamiliar with our corporate structure, or may simply be trying to cast a wide net without evaluating whether there is a true cause of action against our firm. SFVPMC's registered representatives are also named in insurance related lawsuits involving insurance claim disputes that are wholly unrelated to the securities business. In the wake of natural disasters such as the 2005 Gulf Coast hurricanes and major earthquakes this problem becomes particularly acute and FINRA could be inundated with copies of complaints by automobile and homeowner's insurance policyholders having no connection whatsoever to SFVPMC.

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

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.

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 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.

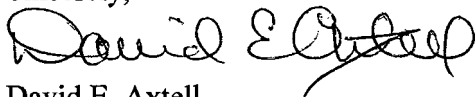
3. Proposed Rule 4530(a)(1)(G) should be clarified.

We request that FINRA modify the wording of proposed rule 4530(a)(1)(G) to make clear that the civil litigation and arbitration events that require reporting continue to be subject to the \$15,000 disposition limitation. As currently drafted, this paragraph could be misinterpreted to apply the \$15,000 disposition limitation only to “any other claim for damages by a customer or broker-dealer,” and not to the referenced types of civil litigation and arbitration. We presume that FINRA is not proposing a change to the long-standing effect of this provision, and we feel that clarification would benefit all member firms.

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.

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,

A handwritten signature in black ink, appearing to read "David E. Axtell". The signature is written in a cursive style with a large, prominent initial "D".

David E. Axtell
Products and Broker-Dealer
Compliance Director