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July 21, 2017

Sent by EMAIL – EBSA.FiduciaryRuleExamination@dol.gov

Office of Exemption Determinations  
Employee Benefits Security Administration  
Attn: D-11933  
U.S. Department of Labor  
200 Constitution Avenue, NW, Suite 400  
Washington, DC 20210

Re: RIN 1210-AB82

Dear Sir:

Thank you for the opportunity to respond to the four (4) questions posed in question number one (1) in the Request for Information regarding the Fiduciary Rule and Prohibited Transaction Exemptions. Farmers Financial Solutions®, LLC (FFS) believes that a delay in the January 1, 2018 applicability date of the provisions in the BIC Exemption, Principal Transactions Exemptions and amendments to PTE 84-24 would benefit our firm and our retirement investors by allowing for a more efficient and thoroughly vetted implementation of the Rule. Fully implementing the Rule without a complete understanding of recent market developments will likely reduce the quality of service we are able to provide to our consumers and expose FFS to heightened litigation risk under private right of action created by the BIC Exemption. Additional time to determine the best ways to comply with certain parts of the Rule will allow FFS to continue to serve working class and middle income investors without interruption and with better certainty.

### **Farmers Financial Solutions**

FFS is a registered broker dealer, owned by Farmers Insurance Exchange®, through which Farmers® offers its Retirement Solutions services. About 5,400 of the 14,000 exclusive Farmers agents are registered representatives of FFS. The financial products FFS has available to its customers in connection with its Retirement Solutions include mutual funds, fixed and variable annuities, variable universal life insurance, and 529 college savings plans. Generally, none of the investment or insurance products available to FFS customers in connection with Retirement Solutions are sponsored or managed by Farmers, FFS or any of their respective affiliates.

FFS was created to add value to customers of Farmers Insurance in an effort to deepen the relationship between the agent and his or her customers. The Farmers agents that are also registered representatives of FFS are not incentivized primarily by the commissions received from providing Retirement Solutions. Accordingly, the bulk of the income of a registered representative of FFS who

is also a Farmers agent is generated by insurance commissions from Farmers Insurance products and only a modest percentage of an agent's annual commissions relate to Retirement Solutions.

Many FFS customers are working class and middle income individuals who are now seldom if ever served by traditional investment advisers, broker dealers and wealth management companies. The remainder of our customers are small businesses. Our typical customers often do not have adequate access to information and education about investment products that will enable them to achieve savings and retirement goals. The relationship established through the provision of insurance products enables the Farmers agent to uniquely develop an understanding of a customer's financial needs, financial goals, and investment horizon and risk tolerance.

### **Implementing the Fiduciary Rule**

FFS has worked diligently to meet the requirements of the June 9<sup>th</sup> deadline. Our efforts have included the development and distribution of new disclosures, updating applicable forms and altering sales processes. We have worked to appropriately communicate these changes to our clients and properly train our registered representatives to comply with the new requirements under the Rule. FFS developed a new Compensation and Conflicts of Interest Disclosure and mailed a letter and this Disclosure to our existing 67,000 retirement investors. To ensure the questions and information we were collecting from our customers would help determine that the product recommendations were in the best interest of the customer, we updated all of our New Account Forms and created a Rollover Form. Additionally, new forms and a process for selling the fixed Annuity products under PTE 84-24 were implemented.

FFS has revised and enhanced our sales processes as related to the sale of Indexed and Fixed Annuity products in order to meet the new requirements. Though not securities, our indexed annuity product was moved under the broker-dealer for suitability and best interest vetting by our back office registered principals.

FFS has also developed and delivered new training for registered representatives and registered principals to cover the DOL rule and the change from suitability to the fiduciary standard. We created and launched a training program to all registered representatives prior to this deadline. In addition, the Firm's continuing education content was also modified to fully account for the Rule as it stands today.

### **Neutralizing Compensation Remains a Challenge**

The Firm respectfully requests that DOL provide additional guidance regarding neutralizing compensation. Though we have invested significant time and expenses to ensure compliance with this requirement, we continue to weigh how to effectively neutralize compensation to meet the best interest standard while providing compensation commensurate with the efforts of our registered

representatives. We remain challenged by determining the acceptability of different compensation arrangements, common in most equity and bond funds, and whether upfront sales charges should be lowered, or 12b-1 fees eradicated or vice versa. The Firm and our customers would benefit from having such guidance and the additional time necessary to make the appropriate decisions to best serve our customers' needs.

### **Recent Market Developments Need to be Fully Vetted**

Share classes and the related sales charges and reductions that have been developed over many decades are fundamental investor benefits. These are key components to the fair, just and equitable standards of trade, required of all broker-dealers and their registered representatives offering such products. FFS would benefit from having more time to appropriately analyze recent market developments, including but not limited to "T" shares and "clean shares," and to determine if these products are in fact in the best interest of our customers. It is important to note that these products are still in the process of being fully developed by manufacturers. In fact, our product partners have indicated that they will need more time to develop clean shares and will not be making the new share classes available by January 1. Once the Firm has completed its due diligence on these products, we will need to develop new policies and procedures for these products and subsequently train our registered representatives and registered principals.

Clean shares will need to be fully examined by FFS to understand all aspects of the share class and the requirements and/or extra burden this would put on the Firm. FFS will have to develop its commission structure including discounts for break-points and rights of accumulations, as will all broker-dealers. The Firm will subsequently be required to contract with each mutual fund sponsor to apply the Firm's unique schedule. We would then have to work out steps to provide disclosures to clients either through confirmation from the product sponsor or directly from FFS. Finally, FFS would need to provide additional detailed training and communicate our policies and procedures to our Registered Representatives.

### **New Reporting and Disclosure Requirements are Labor Intensive**

FFS would appreciate additional time to develop effective and efficient policies and procedures to ensure compliance with the On Demand or On Request Disclosure provisions of the Rule. Under these provisions, if a retirement investor requests additional information regarding a recommended transaction, FFS must provide a disclosure to the customer either prior to the transaction, or, if requested after the transaction is made, within 30 business days of request. This information must present materially accurate disclosures in sufficient detail to permit the retirement investor to make an informed judgment about the costs of the transaction and any potential material conflicts of interest. It must include the costs, fees and other compensation and can be described in percentages, dollar amounts or other means reasonably designed. In order to comply, FFS will need time to

ascertain how this process will be defined and how it will be implemented, specifically with respect to assets direct at various mutual funds and insurance companies

**Further Delay Would Benefit all Stakeholders**

FFS feels strongly that a delay would not cause any additional risk to the Firm and would, in fact, be advantageous to our registered representatives and customers. The Firm would utilize the additional time to create the required forms and disclosures and ensure the policies and procedures were succinct and properly executed. Additional time for training and educating our registered representatives would ensure a smooth transition for our clients. FFS would also welcome the additional time to research enhanced compliance tools. FFS does not anticipate incurring additional costs associated with a delay, as these costs would be incurred as we engage and move toward the full implementation of the Best Interest Standard.

We urge the Department to delay full implementation of the Rule until April 2019. We also would ask the Department to consider postponing the Request for Information on the additional 17 questions (2 through 18) for an additional 60 days so FFS has the time to respond appropriately. Although FFS has expressed concerns with the rule, we remain in agreement with DOL's goal of providing individuals, their families, and businesses with the advice and guidance provided in their best interest to enable them to successfully plan and save for retirement. Thank you again for your time and consideration.

Sincerely,



John Mueting  
President of Farmers Financial Solutions, LLC