UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 101037 / September 16, 2024

ADMINISTRATIVE PROCEEDING
File No. 3-22117

In the Matter of

STATE FARM VP MANAGEMENT CORP.,

Respondent.

ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTIONS 15(b) AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 ("Exchange Act") against State Farm VP Management Corp. ("State Farm" or "Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

Summary

1. These proceedings concern State Farm's failure to comply with Regulation Best Interest ("Regulation BI") between June 30, 2020 and August 2022 (the "relevant period") in connection with State Farm's recommendation that certain of its retail brokerage customers invest in State Farm's qualified tuition program (the "State Farm 529 Savings Plan"), offered by the Nebraska Educational Savings Plan Trust, Nebraska's state-sponsored tax-advantaged 529 tuition savings program, and certain mutual fund shares. During the relevant period, State Farm limited its offering of qualified tuition programs to the State Farm 529 Savings Plan and limited its offering of mutual fund shares to Class A and Class P shares of two mutual fund companies, each with up-front sales charges. State Farm recommended the State Farm 529 Savings Plan to certain customers who did not reside in the State of Nebraska and who could forego tax benefits provided by their home states' qualified tuition program. State Farm also recommended the purchase of Class A and Class P mutual fund shares to customers who had expressed short-term investment horizons or liquidity needs.

2. In recommending investments in the State Farm 529 Savings Plan to certain retail customers, State Farm did not exercise reasonable diligence, care, and skill to understand the potential risks, rewards, and costs associated with its recommendations to investors who resided outside of Nebraska and who could forego tax benefits provided by their home states' qualified tuition programs. In recommending investments in Class A and Class P mutual fund shares to certain retail customers, State Farm did not consider the expressed short-term investment time horizons or liquidity needs of those customers in light of the up-front sales charges for those shares. State Farm also failed to establish written policies and procedures that were reasonably designed to identify and address conflicts of interest and material limitations associated with these recommendations. In addition, State Farm failed to disclose the material limitations of securities available on its platform and its resulting conflicts of interest in recommending investments in the State Farm 529 Savings Plan and mutual fund offerings to certain retail customers. State Farm further failed to establish, maintain, and enforce written policies and procedures reasonably designed to achieve compliance with Regulation BI. As a result, State Farm failed to comply with Regulation BI's Care Obligation, Conflict of Interest Obligation, Disclosure Obligation and Compliance Obligation. By failing to comply with Regulation BI's component obligations, State Farm willfully violated Regulation BI's General Obligation found in Rule 15*l*-1(a)(1) under the Exchange Act.

3. In addition, State Farm failed to include required information about the material limitations of certain securities it recommended to retail customers and the resulting conflicts of interest in its Customer Relationship Summary ("Form CRS"). As a result, State Farm willfully violated Section 17(a)(1) of the Exchange Act and Rule 17a-14 thereunder.

[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Respondent

4. **State Farm VP Management Corp.** is a Delaware corporation, with its principal place of business in Bloomington, Illinois. State Farm has been registered with the Commission as a broker-dealer pursuant to Section 15(b) of the Exchange Act since November 1997. State Farm has branch offices throughout the United States and has over 9,000 registered representatives.

Facts

Background

5. Section 529 of the Internal Revenue Code ("Code") exempts certain qualified tuition programs ("529 Plans") from taxation and permits each state (or an agency or instrumentality thereof) to establish and maintain such programs. 26 U.S.C. §529. 529 Plans are established in compliance with Section 529(b) of the Code, with states generally organizing their 529 Plans as trusts or funds through legislative action. Individual investors purchase interests in the trust or fund on behalf of a designated beneficiary. In turn, these trusts or funds generally invest their assets in pooled investment vehicles, most commonly mutual funds. Because these interests are being offered by a state (or an agency or instrumentality thereof), they are considered municipal securities under Section 3(a)(29) of the Exchange Act.

6. Under Section 529 of the Code, earnings on 529 Plan contributions grow free of federal taxes, and withdrawals are also free of federal taxes if used for qualified educational expenses, such as tuition, fees, room, board, textbooks and other education expenses at qualified higher-education institutions.[2] If an account holder withdraws funds and uses them for non-qualified expenses, however, the account holder must pay income taxes and a 10% penalty on the earnings. As a result, investors have significant disincentives to withdraw funds to use for anything other than qualified, education-related expenses. In addition, many states offer tax benefits such as tax deductions to in-state residents who invest in their home states' 529 Plans.

7. During the relevant period, State Farm limited its offering of qualified tuition programs to a single "State Farm 529 Savings Plan" established by the State of Nebraska, which offered investment options within the Nebraska Educational Savings Plan Trust. This is the only qualified tuition program that State Farm permitted its registered representatives to recommend and sell to retail customers during the relevant period.

8. During the relevant period, State Farm limited its mutual fund product menu to Class A and Class P shares of certain mutual funds from two investment companies. These Class A and Class P mutual fund shares charged investors up-front sales charges in addition to ongoing marketing and distribution fees, known as 12b-1 fees. State Farm did not offer any other share classes of these mutual funds to its retail customers.

[2] Section 529 of the Code provides for two types of tax-advantaged qualified tuition savings programs: prepaid tuition programs and state-sponsored tuition savings plans. Prepaid tuition programs, which involve the prepayment of tuition expenses for students at colleges and universities, have no investment options and are not at issue in this Order.

Failure to Comply with the Reasonable Basis Prong of Regulation BI's Care Obligation

9. Regulation BI's Care Obligation requires a broker-dealer or its associated persons (including registered representatives), in making a recommendation of any securities transaction or investment strategy involving securities to a retail customer, to exercise reasonable diligence, care, and skill to understand the potential risks, rewards, and costs associated with the recommendation and have a reasonable basis to believe that the recommendation could be in the best interest of at least some retail customers ("Reasonable Basis Prong"). Exchange Act Rule 15*l*-1(a)(2)(ii)(A).

10. During the relevant period, State Farm, through its registered representatives, failed to exercise reasonable diligence, care, and skill to understand the potential risks, rewards, and costs associated with recommending the State Farm 529 Savings Plan to certain retail customers because they did not consider the overall cost of tax benefits that customers outside of Nebraska could be foregoing by investing in the State Farm 529 Savings Plan instead of their home states' 529 Plans. Despite these costs, State Farm, through its registered representatives, recommended that at least 236 customers who resided outside the State of Nebraska purchase the State Farm 529 Savings Plan without considering the cost of tax benefits they could forego over the life of the anticipated investment.

11. During the relevant period, State Farm, through its registered representatives, further failed to exercise reasonable diligence, care, and skill to understand the potential risks, rewards, and costs associated with recommendations that retail customers roll over funds from their home states' 529 Plans into the State Farm 529 Savings Plan. In particular, they failed to exercise reasonable diligence, care, and skill to understand the costs associated with the rollover recommendations when customers' home states required the customers to repay any tax benefits the customers had previously claimed from their home states' 529 Plans before rolling over the funds into another state's 529 Plan such as the State Farm 529 Savings Plan (i.e., "tax recapture"). Despite these costs, State Farm, through its registered representatives, recommended that at least 43 retail customers who resided outside the State of Nebraska roll over funds from their home states' 529 Plans into the State Farm 529 Savings Plan without considering the cost of the tax recapture.

12. By failing to exercise reasonable diligence, care, and skill to understand the potential risks, rewards, and costs associated with these recommendations, State Farm failed to comply with the Reasonable Basis Prong of Regulation BI's Care Obligation.

Failure to Comply with the Customer-Specific Prong of Regulation BI's Care Obligation

13. Regulation BI's Care Obligation requires a broker-dealer or its associated persons, in making a recommendation of any securities transaction or investment strategy involving securities to a retail customer, to exercise reasonable diligence, care, and skill to, among other things, have a reasonable basis to believe that the recommendation is in the best interest of a particular retail customer based on the customer's investment profile and the potential risks, rewards, and costs associated with the recommendation ("Customer-Specific Prong"). Exchange Act Rule 15*l*-

1(a)(2)(ii)(B). Regulation BI defines "retail customer investment profile" to include, among other things, tax status. Exchange Act Rule 15*l*-1(b)(2).

14. During the relevant period, State Farm and its registered representatives were required to, among other things, have a reasonable basis to believe that their recommendations of the State Farm 529 Savings Plan were in their retail customers' best interest in light of each retail customer's investment profile and the potential risks, rewards, and costs of the State Farm 529 Savings Plan. Despite the registered representatives' knowledge that at least 236 retail customers resided in states other than Nebraska, State Farm, through its registered representatives, recommended the State Farm 529 Savings Plan to those customers without considering all of the costs associated with the investment, including the cost of tax benefits investors outside of the State of Nebraska may receive from investing in their home states' 529 Plans.

15. In accordance with State Farm's policies and procedures, State Farm and its registered representatives calculated the approximate amount of the first-year tax benefit that retail customers residing outside of Nebraska could forego by purchasing the State Farm 529 Savings Plan instead of their home states' 529 Plans on State Farm's suitability forms. However, despite the registered representatives' knowledge that many of these customers planned to continue to invest for multiple years until the beneficiaries were at least 18 years old, State Farm, through its registered representatives, failed to consider the overall risks, rewards, and costs of the State Farm 529 Savings Plan in light of the customers' investment profiles, including that they may have foregone up to approximately $61,000 in tax benefits had they invested in their home states' 529 Plans. As a result, State Farm, through its registered representatives, recommended the State Farm 529 Savings Plan to at least 236 retail customers for whom it did not have a reasonable basis to believe that the investment was in the customers' best interest.

16. During the relevant period, State Farm, through its registered representatives, recommended that at least 43 retail customers roll over funds from their home states' 529 Plans into the State Farm 529 Savings Plan despite the knowledge that those customers resided outside the State of Nebraska and that the customers' home states required them to repay any tax benefits that they had previously claimed when rolling over funds from their home states' qualified tuition programs to purchase a 529 Plan sponsored by another state. However, State Farm, through its registered representatives, did not consider the cost of this tax recapture when recommending that these customers roll over their funds into the State Farm 529 Savings Plan or that the customers could be required to pay back a total of approximately $31,000 to their home states. As a result, State Farm, through its registered representatives, recommended the State Farm 529 Savings Plan to at least 43 retail customers for whom it did not have a reasonable basis to believe that the investment was in those customers' best interest.

17. During the relevant period, State Farm, through its registered representatives, recommended that at least 400 retail customers purchase Class A shares of the State Farm 529 Savings Plan and Class A and Class P mutual fund shares with up-front sales charges from the two mutual fund families listed on its product menu despite the registered representatives' knowledge that these retail customers had expressed short-term investment time horizons and/or short-term liquidity needs in their investment profiles, costing these retail customers a total of approximately

$311,000 in up-front sales charges. These recommendations included recommendations to customers who purchased Class A shares in State Farm 529 Savings Plan accounts for children who were age 16 or older and who indicated to their registered representatives that they would need the funds for college expenses in one year or less and had less than $500 in other cash equivalent investments. In recommending investments in Class A and Class P mutual fund shares to retail customers who indicated they would need the funds within a short period of time, State Farm, through its registered representatives, failed to consider the cost of the up-front sales charges for those mutual fund share classes. As a result, State Farm, through its registered representatives, recommended and sold Class A shares in State Farm 529 Savings Plan and Class A and Class P mutual fund shares to approximately 400 retail customers for whom it did not have a reasonable basis to believe that the investments were in those customers' best interest.

18. Because these recommendations were not in the best interest of these customers, State Farm failed to comply with the customer-specific prong of Regulation BI's Care Obligation.

Failure to Comply with the Conflict of Interest Obligation

19. Regulation BI's Conflict of Interest Obligation requires a broker-dealer to establish, maintain, and enforce written policies and procedures reasonably designed to identify conflicts of interest associated with recommendations and to disclose, mitigate or eliminate such conflicts of interest, depending on the nature of the specific conflict. Exchange Act Rule 15*l*-1(a)(2)(iii). Regulation BI defines "conflict of interest" as "an interest that might incline a broker, dealer, or a natural person who is an associated person of a broker or dealer – consciously or unconsciously – to make a recommendation that is not disinterested." Exchange Act Rule 15*l*-1(b)(3).

20. During the relevant period, State Farm's written policies and procedures required it to conduct periodic reviews to identify and disclose, among other things, any material limitations placed on the securities or investment strategies involving securities that may be recommended to a retail customer and any conflicts of interest associated with such limitations. These conflicts of interest procedures required a review of material limitations on securities or investment strategies. In these policies and procedures, State Farm acknowledged that material limitations may result from "recommendations of only proprietary products, only a specific asset class[,]…. [or] products from only a select group of issuers" and that the recommendation of a "limited range of products…[w]ould be considered a material limitation to a recommendation and would be required to be mitigated if applicable." State Farm also conducted annual reviews of its conflicts of interest during the relevant period.

21. State Farm's written policies and procedures did not include reasonable processes for identifying and disclosing the material limitations of the securities and investment strategies available through State Farm, including the limitations on the 529 Plan and share classes available on State Farm's mutual fund product menu and the associated conflicts of interest. State Farm did not identify the conflicts of interest resulting from these limited offerings in its reviews. State Farm's written policies and procedures did not include a process by which State Farm and its registered representatives could determine whether its limited offerings and associated conflicts of interest placed State Farm's interests ahead of the interests of its retail customers.

22. As a result, State Farm failed to comply with Regulation BI's Conflict of Interest Obligation.

Failure to Comply with Regulation BI's Disclosure Obligation

23. Regulation BI's Disclosure Obligation requires a broker-dealer or its associated persons, prior to or at the time of the recommendation, to provide retail customers, in writing, full and fair disclosure of, among other things, all material limitations on the securities or investment strategies involving securities that may be recommended to the retail customer; the material fees and costs that apply to the retail customer's transactions, holdings, and accounts; and all material facts relating to conflicts of interest that are associated with the recommendation. Exchange Act Rule 15*l*-1(a)(2)(i).

24. During the relevant period, State Farm disclosed to customers in its "Scope of Service for the State Farm 529 Savings Plan" that it offered the State Farm 529 Savings Plan, but it did not disclose that this was the only 529 Plan offered by State Farm. It also did not disclose that this material limitation on the securities or investment strategies that State Farm could recommend to its customers created an incentive for its registered representatives to place State Farm's interest in recommending investments in the State Farm 529 Savings Plan to customers who resided outside the State of Nebraska ahead of the interests of those customers who could have received the tax benefits provided by their home states' 529 Plans.

25. During the relevant period, as to its offering of mutual fund investments, State Farm disclosed in its "Scope of Service for its State Farm Brokerage Accounts" that "State Farm brokerage accounts utilize mutual funds managed by industry leaders, with funds offered in Class A and [Class] P shares." However, State Farm's disclosures did not make clear that its decision to offer only Class A and Class P shares was a material limitation on the securities or investment strategies involving securities that it could recommend to its retail customers. State Farm also did not disclose that this material limitation created an incentive for its registered representatives to recommend Class A and Class P shares, which imposed up-front sales charges, to its retail customers even when customers had short-term investment horizons and/or short-term liquidity needs.

26. By failing to disclose the material limitations on securities it recommended to retail customers and all material facts concerning the resulting conflicts of interest, State Farm failed to comply with Regulation BI's Disclosure Obligation.

Failure to Comply with the Compliance Obligation

27. Regulation BI's Compliance Obligation requires a broker-dealer to establish, maintain, and enforce written policies and procedures reasonably designed to achieve compliance with Regulation BI. Exchange Act Rule 15*l*-1(a)(2)(iv).

28. During the relevant period, State Farm failed to establish, maintain, and enforce written policies and procedures reasonably designed to achieve compliance with Regulation BI because it did not provide its registered representatives and supervisors with guidance or procedures reasonably designed to help ensure that they understood the potential risks, rewards, and costs of the State Farm 529 Savings Plan in light of the tax benefits that retail customers who resided outside the State of Nebraska could be foregoing. In addition, State Farm did not provide its registered representatives with any guidance or procedures for how to form a reasonable basis as to whether recommendations of Class A or Class P mutual fund shares to customers with short-term investment time horizons or short-term liquidity needs were in the customers' best interest.

29. By failing to establish, maintain, and enforce written policies and procedures reasonably designed to achieve compliance with Regulation BI, State Farm failed to comply with Regulation BI's Compliance Obligation.

Failure to Include Required Information in Form CRS

30. Section 17(a)(1) of the Exchange Act requires every broker-dealer to make and disseminate such reports as the Commission, by rule, prescribes as necessary or appropriate in the public interest, for the protection of investors. Rule 17a-14 under the Exchange Act requires a broker-dealer providing services to a retail investor, among other things, to include in Form CRS all information required by its instructions. See 17 CFR 240.17a-14. Form CRS Item Instruction 2.B.(iii) requires a broker-dealer to "[e]xplain whether or not [it] make[s] available or offer[s] advice only with respect to proprietary products, or a limited menu of products or types of investments, and if so, describe these limitations."

31. During the relevant period, State Farm did not disclose in Form CRS that it had limited its menu of mutual fund shares to Class A and Class P mutual fund shares or that it had limited its menu of 529 Plans to only the State Farm 529 Savings Plan. State Farm also did not provide any further explanation of these limitations to its retail investors.

32. By failing to include required information in its Form CRS, State Farm failed to comply with Section 17(a)(1) of the Exchange Act and Rule 17a-14 thereunder.

Violations

33. As a result of the conduct described above, State Farm willfully[3] violated Rule 15*l*-1(a)(1) under the Exchange Act.

[3] "Willfully," for purposes of imposing relief under Section 15(b) of the Exchange Act, "'means no more than that the person charged with the duty knows what he is doing.'" *See Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "also be aware that he is violating one of the Rules or Acts." *Tager v. SEC*, 344 F.2d 5, 8 (2d Cir. 1965). The decision in *The Robare Group, Ltd. v. SEC*, which construed the term "willfully" for purposes of a differently structured statutory provision, does not alter that standard. 922 F.3d 468, 478-79 (D.C. Cir. 2019) (setting forth the showing required to establish that a person has "willfully omit[ted]" material information from a required disclosure in violation of Section 207 of the Investment Advisers Act of 1940).

34. As a result of the conduct described above, State Farm willfully violated Section 17(a)(1) of the Exchange Act and Rule 17a-14 thereunder.

State Farm's Remedial Efforts

35. In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent State Farm and cooperation afforded the Commission staff. Among other things, in January 2024, State Farm paid approximately $422,000, including interest, to reimburse affected customers.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Sections 15(b) and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent State Farm cease and desist from committing or causing any violations and any future violations of Section 17(a)(1) of the Exchange Act and Rules 15*l*-1(a) and 17a-14 thereunder.

B. Respondent State Farm is censured.

C. Respondent State Farm shall, within 30 days of the entry of this Order, pay a civil money penalty in the amount of $211,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717.

Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341

6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying State Farm as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Anne C. McKinley, Assistant Director, Division of Enforcement, Securities and Exchange Commission, 175 West Jackson Boulevard, Suite 1450, Chicago, IL 60604.

D. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Vanessa A. Countryman
Secretary