



August 7, 2017

Sent by EMAIL – EBSA.FiduciaryRuleExamination@dol.gov

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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 additional questions in the Request for Information regarding the Fiduciary Rule and Prohibited Transaction Exemptions. On July 21st, Farmers Financial Solutions®, LLC (FFS) responded to question number one (1). In the response, FFS suggested 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. Below are answers to some of the additional questions. For purposes of answering the second RFI, FFS has chosen to answer the specific questions that most closely align with our business model and concerns with the Rule.

2. What has the regulated community done to comply with the Rule and PTEs to date, particularly including the period since the June 9, 2017, applicability date? Are there market innovations that the Department should be aware of beyond those discussed herein that should be considered in making changes to the Rule?

FFS has worked diligently to meet the requirements of the June 9th deadline. New disclosures were created, forms were produced and updated, multiple processes were changed, systems were updated, communications to customers were conducted, and all registered representatives were trained to comply with the new requirements under the Rule. The costs of compliance were extensive, and included updating existing systems or adding additional systems, as well as utilizing outside counsel to interpret multiple pieces of the new Rule which were not clear.

The Department of Labor's fiduciary rule is compelling the industry and financial services firms to innovate and we have seen new products (i.e. Clean shares, T-shares) as well as technology platforms that could help improve customer experience and the quality of advice. However, additional transition time is critical to ensure that there is appropriate due diligence, thorough assessment and to ensure smooth implementation of the newer products and platforms.

As we discussed in our response dated July 21, a delay in the January 2018 compliance date could help operationalize these new innovations and allow for further developments. FFS would benefit from having more time to appropriately analyze recent market developments to determine if these

products are in fact in the best interest of our customers. 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, along with all broker-dealers, will have to develop its commission structure including discounts for break-points and rights of accumulations. 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 on Clean shares, and communicate our policies and procedures to our Registered Representatives.

3. Do the Rule and PTEs appropriately balance the interests of consumers in receiving broad-based investment advice while protecting them from conflicts of interest? Do they effectively allow Advisers to provide a wide range of products that can meet each investor's particular needs?

FFS does not believe that the Rule and PTEs appropriately balance the interests of consumers in receiving broad-based investment advice while protecting them from conflicts of interest. The Rule certainly does not allow for an offering of a wide range of products. Most FFS customers are working class and middle income Americans, and small businesses that do not have access to a traditional Financial Adviser. The Firm agrees with the DOL that planning for retirement is important and that all levels of investors should receive ethical, professional guidance, but feel that with the implementation of the Rule, middle America may not only be at a disadvantage for such services, but now may not be able to obtain retirement services at all for which this exact Rule was supposed to secure. For example, FFS may rethink retirement account thresholds and require a minimum amount of assets (i.e. \$25,000 or \$50,000) due to the extra requirements on the Registered Representative, the Firm and the fear of BIC Exemption related litigation, thus limiting this advice to a smaller number of clients at FFS. And due to the Fiduciary Rule requirements that compensation be leveled within each product category, retirement investor's access to certain retirement products could be significantly reduced. FFS is challenged with neutralizing bond funds with equity funds and may have to limit some of the product offerings simply because they don't fit in with this new leveled compensation model.

In addition, 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. When faced with complicated disclosures, forms, a Best Interest Contract and the thought of heightened litigation, many registered representatives may feel that the risk of offering a client a retirement product may outweigh the benefit.

For the reasons listed above, it is fair to conclude that the Fiduciary Rule will reduce investors' access to certain retirement product structures and financial advice, especially at the lower investment thresholds. This reduced access will result in disruptions within the retirement services industry and adversely affect retirement investors.

Contract Requirement in BIC and Principal Transaction Exemptions
The contract requirement in the BIC Exemption and Principal Transactions Exemption and resulting

exposure to litigation creates an added motivation for Financial Institutions and Advisers to oversee and adhere to basic fiduciary standards, and provides that IRA owners have an additional means to enforce those protections. Throughout the fiduciary rulemaking, however, commenters have been divided on the contract requirement, with many expressing concern about potential negative implications for investor costs and access to advice. As noted above, the Department is interested in the possibility of regulatory changes that could alter or eliminate contractual and warranty requirements.

5. What is the likely impact on Advisers' and firms' compliance incentives if the Department eliminated or substantially altered the contract requirement for IRAs? What should be changed? Does compliance with the Impartial Conduct Standards need to be otherwise incentivized in the absence of the contract requirement and, if so, how?

The Firm has made the necessary changes to implement the Impartial Conduct Standards, providing best interest advice under reasonable compensation and disclosing all material conflicts of interests. The Firm does not believe that the contract would change what the firm has already implemented to comply with the Impartial Conduct Standards. In fact, FFS believes that the BIC may have a negative effect creating confusion and distrust for clients, which in turn would have an adverse result for the registered representative wanting to recommend products for retirement customers. The BIC is, at best, a lengthy document filled with legalese that customers are unlikely to read or comprehend. FFS believes that a contract is not necessary as the Firm is complying with the Rule as was intended.

Additionally, the fiduciary standards under SEC and FINRA are different in their scope and application, resulting in significant challenges when attempting to implement the DOL Fiduciary Rule. In particular, allowing investors to pursue class actions against registered representatives, broker-dealers and insurance companies under the DOL Fiduciary Rule is perhaps the most onerous and objectionable provision in the Rule. FFS strongly recommends discarding the private right of action, leaving dispute resolution by arbitration in place. Moving forward, harmonization of the financial regulations and existing securities law is recommended to ensure a coordinated uniform standard that is easier to implement and explain to customers.

7. Would mutual fund clean shares allow distributing Financial Institutions to develop policies and procedures that avoid compensation incentives to recommend one mutual fund over another? If not, why? What legal or practical impediments do Financial Institutions face in adding clean shares to their product offerings? How long is it anticipated to take for mutual fund providers to develop clean shares and for distributing Financial Institutions to offer them, including the time required to develop policies and procedures that take clean shares into account? What are the costs associated with developing and distributing clean shares? Have Financial Institutions encountered any operational difficulties with respect to the distribution of clean shares to the extent they are available? Do commenters anticipate that some mutual fund providers will proceed with T-share offerings instead of, or in addition to, clean shares? If so, why?

Clean shares have no built-in commission or 12-b (1) fees, so therefore are one effective vehicle to neutralize compensation across all mutual funds allowing for one compensation structure. Clean shares would allow a fund company to offer a low-priced product without a commission or any servicing fee.

Despite their positive characteristics, these products also create challenges for broker dealers. Mutual funds are sold under prospectus and it isn't clear now how the broker dealer's unique compensation arrangement will be disclosed in the prospectus. Questions also exist about setting up

the broker dealer's commission structure at each mutual fund company. If there are roughly 4,800 broker dealers in the United States, each mutual fund company could be faced with setting up 4,800 different commission schedules into their systems. It is still uncertain how long it may take for mutual fund providers to develop clean shares for distribution, and what that cost might be. Due to the operational processes and development necessary to launch such products (trading, commissions, and surveillance systems) it would be doubtful that these share classes would be ready without a significant timeframe to implement. T-shares may actually be a more viable option since approximately 4,000 mutual fund firms have already filed with the SEC and it may be easier to bring to market quickly. Even with T-shares, time, resources and expense would be an important part of that implementation

13. Are there ways to simplify the BIC Exemption disclosures or to focus the investor's attention on a few key issues, subject to more complete disclosure upon request? For example, would it be helpful for the Department to develop a simple up-front model disclosure that alerts the retirement investor to the fiduciary nature of the relationship, compensation structure, and potential sources of conflicts of interest, and invites the investor to obtain additional information from a designated source at the firm? The Department would welcome the submission of any model disclosures that could serve this purpose.

Contributions to Plans or IRAs.

The Firm would welcome the development of a simple, up-front model disclosure that alerts the retirement investor to the fiduciary nature of the relationship, compensation structure, and potential sources of conflicts of interest. FFS has created a Disclosure document which serves this purpose and is integrated with our account opening process, and is located on our website.

14. Should recommendations to make or increase contributions to a plan or IRA be expressly excluded from the definition of investment advice? Should there be an amendment to the Rule or streamlined exemption devoted to communications regarding contributions? If so, what conditions should apply to such an amendment or exemption?

Based on the current Rule, a recommendation to roll money from a 401(k) to an IRA will require a much greater level of due diligence and the documentation. For example, advisers need to gather information such as investment options, expenses and services in both the IRA and 401(k) plan, and perform a comparative evaluation in order to make a best-interest determination. This process could be very cumbersome and time consuming, and may result in significant increase in cost of providing the advice. Therefore, we recommend the rule be amended to make the requirements less stringent, especially for smaller rollover amounts. Additionally, since IRAs are covered by the Internal Revenue Code, rather than ERISA, it seems logical that changes in IRA are excluded from the definition of investment advice. However, if the DOL decided to include IRA, then there should be a streamlined exemption for contribution recommendations.

Grandfathering

Section VII of the BIC Exemption provides a grandfathering provision to facilitate ongoing advice with respect to investments that predated the Rule, and to enable advisers to continue to receive compensation for those investments. Some commenters thought this provision could be expanded in ways that would minimize potential disruptions associated with the transition to a fiduciary standard and facilitate ongoing advice for the benefit of investors.

16. To what extent are firms and advisers relying on the existing grandfather provision? How has the provision affected the availability of advice to investors? Are there changes to the provision that would enhance its ability to minimize undue disruption and facilitate valuable advice?

Farmers Financial Solutions is not relying on the existing grandfather provision. Although the provision can be used for existing clients where no new recommendations are made, where an exchange of funds can be made, or a recommendation to hold can be performed, it would be difficult for the Firm to monitor where even the most innocuous of advice or recommendation could jeopardize the Firm from compliance with the Rule. Therefore, FFS will need to create and communicate with all retirement investors thirty (30) days prior (Negative Consent Amendment) to implementation of the full, signed Best Interest Contract if the Rule remains unchanged starting January 1, 2018.

18. To the extent changes would be helpful, what are the changes and what are the issues best addressed by changes to the Rule or by providing additional relief through a prohibited transaction exemption?

As mentioned earlier, FFS considers the Best Interest Contract to be an unnecessary component of the Rule. Although BIC Exemption provides an option for agents to recommend a product on a commission basis. In practice, the BIC Exemption is too complex and burdensome to provide a workable option for our agents who seek to continue serving clients on a commission basis and support Middle America with relatively smaller investment and retirement savings. Since the Impartial Conducts Standards have been put in place June 9th, there is no need for a lengthy, legal signed contract. The Compensation and Conflicts of Interest Disclosure given to the retirement investor at the time of the recommendation indicating the Firm's commitment to the Impartial Conduct Standards this should be sufficient information with regards to the Fiduciary Rule.

In addition, based on the current DOL Rule requirements, it is easier for broker dealers to move assets from brokerage into advisory accounts. We don't think that shifting assets from brokerage to advisory is always in the best interest of clients. The rule makes it difficult and more costly for firms to conduct business on a commission basis. It seems that the DOL viewed commission accounts as potentially more conflicted than advisory accounts. We believe that in many circumstances, commissions may better serve investors in certain circumstances, such as for buy-and-hold investors who don't engage in regular retirement-account transactions.

Before we close, we would ask the Department to look at the research conducted and compiled by the Life Insurance Management Research Association (LIMRA) if they have not already done so.

LIMRA made some comparisons and looked at lessons learned in the United Kingdom as they implemented their version of "best interest". In 2016, the number of advisors in the UK declined 23% from 40,000 to 31,000 where it remains today.¹ Advisors raised their client asset minimums from £50,000 to £75,000.² They found that only 8% of clients were willing to spend £500 for more advice, and only 14% were willing to spend between £200 and £500.¹ It was clear that consumers without significant wealth found it more difficult to access advice or support to meet their needs. In fact, the Financial Conduct Authority examining the results thought that perhaps commission payments should be allowed again for certain investments or for pension products almost admitting that they had regrets with implementing the rule.

Based on this information, LIMRA did some research to see the consequences of implementing the Fiduciary Rule in the United States, and 54% of Advisors said they would retire or leave the business. Some of the reasons for leaving were varied, with 75% worried about increased litigation, 68% because of changes to compensation, and 61% because of the high cost to implement. If 54% of Advisors retired or left the industry, LIMRA found that the effect would be that fifteen (15) million households would lose access to investment advice, and if only half of them left the industry as stated, then approximately four (4) million households would be harmed by losing access to a

financial advisor and advice.³ In addition, LIMRA found that only 15% of investors in the US would be willing to pay \$100 more for advice, significantly lower than their findings in the UK.*

Other market research conducted by LIMRA included findings that people save more, 53%, versus 32% when working with a financial advisor. And if a consumer did work with an advisor, almost double the amount of investors, 58%, would have calculated the assets needed to retire versus 30% of investors that don't have a financial planner of some sort.** The research also disclosed that Robo advice is not an effective substitute. One third of consumers did not know what this advice was, only one (1) in ten (10) wanted it, and of the Millennials studied, 50% didn't say they would use it, only that they might consider using it.*¹ The study went on to show that 54% of Americans wanted both a human relationship combined with technology when receiving investment advice.

LIMRA projected that by 2025, there will be 66.4 million retirees and by 2045 there will be 84 million.*² The impact of this Rule could have a significant impact as we put the money in the hands of all these retirees who indeed will need access to investment advice and a financial advisor.

FFS appreciates the Department of Labor's thorough review of this rule. 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.

Best Regards,



John Mueting
President of Farmers Financial Solutions

¹Source: Financial Advice Market Review, 2016

²Source: The Guidance Gap, Cass Business School, City University, London

³Source: DOL Viewpoints, LIMRA Secure Retirement Institute, 2016

*Sources: LIMRA 2016 eNation survey

**Source: 2015 Retirement Income Reference Book, LIMRA Secure Retirement Institute

*¹Source: Robo-Advice: Today and Into the Future (2017), LIMRA; Financial Advice Market Review, 2016

*²Source: Fact Book on Retirement Income 2016, LIMRA Secure Retirement Institute, 2016

*³ Source: Fact Book on Retirement Income 2016, LIMRA Secure Retirement Institute, 2016