

ALABAMA SECURITIES COMMISSION

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Alabama Securities Commission Joins \$106 Million Multi-State Settlement with Vanguard over Big Tax Bills, Remediation to Investors

Montgomery, Alabama (January 17, 2025) – The Alabama Securities Commission (ASC) today announced that it joined a taskforce of state securities regulators and the United States Securities and Exchange Commission (SEC) in a \$106 million settlement with Vanguard Marketing Corporation (VMC) and The Vanguard Group, Inc. (Vanguard) for failing to supervise certain registered persons and failing to disclose potential tax consequences to investors following a change in investment minimums for certain target date retirement funds.

The settlement stems from a three-year multi-state task force investigation coordinated through the North American Securities Administrators Association’s Enforcement Section Committee, to conduct a comprehensive investigation, parallel to a concurrent investigation by the SEC.

The investigation revealed that in 2020, Vanguard lowered the investment minimums for its Institutional Target Retirement Funds (TRFs). As a result of the lowered investment minimums, a large number of retirement plan investors redeemed their Investor TRF shares to purchase Institutional TRF shares. The large number of redemptions caused Vanguard to sell highly appreciated assets in the Investor TRF, which triggered significant capital gains taxes for hundreds of thousands of retail investors who remained invested in the Investor TRF. Vanguard did not disclose the potential capital gains and tax implications to Investor TRF shareholders which was a consequence of the migration of shareholders from the Investor TRF to the Institutional TRF.

“Thousands of Alabamians were impacted by the actions of Vanguard,” said Director Amanda Senn. “The information that Vanguard failed to disclose to investors is precisely the type of information the investing public needs to know before making investment decisions. We appreciate Vanguard’s cooperation in this matter and efforts to compensate our investors for their losses,” said Senn, who also serves as the Enforcement Section Co-Chair for the North American Securities Administrators Association.

The Vanguard Group, Inc. is the parent company of Vanguard Marketing Corporation, a FINRA- and state-registered broker-dealer. Vanguard markets and sells target retirement funds to investors who hold shares in qualified accounts that offer special tax treatment, including deferred taxes, as well as to investors who hold shares in taxable accounts. Historically, the amount of capital gains distributions and resulting tax liability for shareholders in Investor TRFs has been modest. The SEC will notify the investors that were impacted by this action and will administer the remediation payments, through its Fair Fund program, to compensate investors for the capital gains taxes.

The ASC urges Alabamians to make wise financial decisions and exercise caution with new financial opportunities. If you are suspicious of possible financial fraud or would like to request fraud prevention or financial education training for your group, call the ASC at 1-800-222-1253. Free investor education and fraud prevention materials are available at www.asc.alabama.gov.

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