

**In the Matter of Vanguard Marketing Corporation and  
The Vanguard Group, Inc.**

Settlement Term Sheet

1. In September 2022, parallel to a concurrent investigation conducted by the United States Securities and Exchange Commission (“SEC”), the North American Securities Administrators Association (“NASAA”) established a working group comprised of approximately 40 states (the “NASAA Working Group”) led by Connecticut, New Jersey, and New York (the “Lead States”), for the purposes of investigating the circumstances surrounding the decision of the Vanguard Chester Funds (the “Trust”), on December 11, 2020, to lower the investment minimum of its Institutional Target Retirement Funds (“TRFs”) and the resulting capital gains tax distributions in December 2021 to shareholders of Investor TRFs (“Investor TRFs”) who held the funds in taxable accounts.
2. The Trust, an SEC-registered open-end investment company, offers Institutional and Investor TRFs. Prior to December 11, 2020, the investment minimum for Institutional TRFs was \$100 million and the investment minimum for Investor TRFs was \$1,000. Institutional TRFs had a lower expense ratio than Investor TRFs.
3. The Vanguard Group, Inc. (“VGI”) (CRD No. 105958) is the parent company of Vanguard Marketing Corporation (“VMC”) (CRD No. 7452), a FINRA and state-registered broker-dealer. VGI is owned by its U.S. mutual funds and provides services to the funds at Vanguard’s cost of operations and manages the assets of the TRFs (VGI and VMC together are referred to herein as “Vanguard”). Vanguard markets and sells the TRFs to investors who hold TRF shares in qualified accounts that offer special tax treatment, including deferred taxes, as well as to investors who hold TRF shares in taxable accounts.
4. As disclosed in the TRFs’ prospectuses, each TRF distributes to shareholders virtually all its net income and net short- or long-term capital gains realized from the sale of its holdings or received from the TRFs’ underlying funds. TRF investors typically received capital gains distributions on an annual basis. The capital gains distributions are taxable. For investors who hold their TRF shares in tax-deferred accounts, capital gains tax liability is deferred. However, investors who hold their shares in taxable accounts face potential tax liability for any capital gains distribution that they receive at the time they receive it. Historically, the amount of capital gains distributions and resulting tax liability for shareholders in Investor TRFs was modest.

5. In early 2020, VGI formed the Pricing Working Group (the “PWG”), an internal working group tasked with analyzing and recommending options to VGI’s Global Investment Committee (the “GIC”) to reduce the gap between VGI’s advisory expenses and the expense ratios paid by shareholders of the Investor TRFs, to lower expenses for investors in the Investor TRFs, and to return value to shareholders. The PWG was comprised, in part, of certain FINRA and state-registered VMC broker-dealer agents. The GIC is VGI’s primary governance committee for all Vanguard products, and it is comprised of VGI’s senior management, including its CEO.
6. In late 2020, the PWG recommended to the GIC that the Trust reduce the investment minimum of the Institutional TRFs from \$100 million to \$5 million and to also lower the Investor TRFs’ expense ratios by 0.01% to 0.02%. Prior to submitting the recommendation to the GIC, the PWG determined that potential capital gains and tax consequences to a small percentage of Investor TRF investors holding the funds in taxable accounts did not “present a hindrance” to recommending the lowering of the minimum investment for the Institutional TRFs. The PWG based this recommendation on analysis it performed in early 2020, when the financial markets had declined during the COVID 19 pandemic, and did not update the analysis when the financial markets had begun to recover.
7. Prior to the PWG’s recommendation to the GIC and the Board’s subsequent approval, the PWG did not consider the potential capital gains and tax consequences that might occur if the financial markets significantly appreciated in the future, or if a substantial number of Investor TRF investors redeemed their shares to purchase Institutional TRFs in a short period of time in a rising market and whether such activity would cause the funds to sell appreciated assets to satisfy the redemptions.
8. The GIC accepted the recommendation of the PWG and, in November 2020, made the same recommendation to the Trust’s Board of Trustees. The Board approved the GIC’s recommendation to lower the investment minimum of the Institutional TRFs.
9. On December 11, 2020, Vanguard announced, via press release and Institutional TRF prospectus supplement, the lowering of the investment minimum in Institutional TRFs, effective immediately. The Investor TRF prospectuses and the press release did not contain any disclosures regarding potential capital gains and tax consequences to Investor TRF shareholders in taxable accounts that could result from the lowering of the minimum investment for the Institutional TRFs, and the anticipated movement of a substantial number of Investor TRF investors to the Institutional TRFs.

10. During the first half of 2021, a substantial number of small- and medium-sized retirement plan investors redeemed their shares of Investor TRFs to purchase shares of Institutional TRFs to take advantage of the lower expense ratios. To meet these redemptions, the Investor TRFs had to sell underlying assets that had appreciated due to the rising financial markets that had rebounded from pandemic lows and reached new highs. As a result of the Investor TRF sales, the accumulated realized capital gains across the Investor TRFs increased significantly as compared to 2020. Hundreds of thousands of retail investors nationwide who held the Investor TRFs in taxable accounts received historically large capital gains distributions in December 2021 as a result of Vanguard’s decision to lower the investment minimum of the Institutional TRFs.
11. The NASAA Working Group has concluded that (i) VMC failed to adequately supervise its agents serving on the PWG to ensure they took adequate steps to disclose the risk that Investor TRF shareholders in taxable accounts could potentially experience significant tax consequences in the form of historically large capital gains distributions as a result of lowering the investment minimum for Institutional TRFs, and (ii) VGI failed to disclose to investors the potentially significant impact on capital gains distributions and resulting capital gains tax liability.
12. The following represents the material terms of the settlement agreed to by Vanguard and the NASAA Working Group (the “Settlement”), which will recommend approval of the Settlement by the states and territories identified in Appendix A (each, a “Jurisdiction,” and collectively, the “Jurisdictions”). Vanguard will neither admit nor deny the findings of the NASAA Working Group.
13. Simultaneous herewith, Vanguard has entered into settlement agreements with the SEC and the Attorney General of the State of the New York (“NYAG”)<sup>1</sup> concerning substantially the same facts alleged herein.
14. Vanguard enters into this Settlement Term Sheet based on the understanding that the Lead States and Vanguard will work hereafter to draft a mutually agreeable Form of Order, consistent with the terms set forth herein, which the NASAA Working Group will recommend that each of the Jurisdictions adopt in equivalent form in its own individual administrative order. Neither the Form of Order nor any Order subsequently entered by any Jurisdiction shall allege intentional or reckless

---

<sup>1</sup> Vanguard and the Attorney General of the State of New York will enter into an Assurance of Discontinuance.

fraudulent conduct. Vanguard understands that each Jurisdiction, including the Lead States, will require inclusion of additional citations that are necessary for purposes such as establishing jurisdiction and the authority of each administrator and/or commissioner to enforce the Securities Act, or for affirming Vanguard's waiver of certain rights relating to a hearing.

#### **A. Violations**

15. The Form of Order will find conclusions of law supporting that: (i) VMC failed to adopt policies and procedures to ensure and maintain an adequate system to reasonably supervise VMC agents who served on VGI PWG and ensure that the agents accurately and timely escalated to the GIC, all potential tax risks to customers associated with the business decisions made by VGI with respect to the TRFs, and (ii) VGI failed to disclose the potential for increased capital gains distributions resulting from the redemptions of fund shares by newly-eligible investors switching from the Investor TRFs to the Institutional TRFs.

#### **B. Remediation Payment**

16. Under the settlements, Vanguard has agreed to resolve certain charges and pay \$135 million in remediation within 10 days of the effective date of the SEC Order, the New York State Assurance of Discontinuance, and this Settlement Term Sheet for the benefit of Harmed Investors (the "Remediation Payment").
17. "Harmed Investors" includes shareholders who held Investor TRFs as of December 28, 2021, in a taxable brokerage account at VMC, a taxable account directly through VGI, or a taxable account through a third-party broker-dealer, and who received taxable capital gains distributions in 2021 attributable to the Investor TRFs. For purposes of this Settlement Term Sheet, Harmed Investors resided in the states identified in the attached Appendix A and New York and Massachusetts as of December 28, 2021.<sup>2</sup>

---

<sup>2</sup>On July 6, 2022, the Massachusetts Securities Division and VMC entered into the Agreement and Acknowledgment of Undertakings, wherein the parties agreed to conclude and resolve, with prejudice, Massachusetts's investigation into VMC's "marketing practices in connection with investment minimum changes to Institutional Vanguard Target-date Retirement Mutual Funds." Per the terms of the Agreement, VMC agreed, in part, to "establish a non-reversionary escrow account in the amount of \$5,500,000" to make restitution payments to Massachusetts Investor TRF shareholders "with a primary address of record in Massachusetts who held [Investor TRFs] as of December 28, 2021, either in taxable brokerage accounts at VMC or directly through the Vanguard Group, Inc." Although Massachusetts is not listed as a Jurisdiction in Appendix A, this Settlement Term Sheet and the Form Order do not preclude (1) Massachusetts investors from submitting claims to the SEC Fair Fund and (2) initiating an action to protect its investors in accordance with Section C, paragraph 23 (iii) of this Term Sheet.

18. Vanguard is entitled to an offset to the Remediation Payment by (a) the amount of \$40 million for Vanguard's and/or its affiliates' settlement of a class action against VGI and certain related parties pending in the U.S. District Court for the Eastern District of Pennsylvania captioned, *In re Vanguard Chester Funds Lit.*, Case No. 2:22-cv-955-JFM, under a Stipulation of Settlement submitted by plaintiffs for preliminary and final Court approval ("Class Action Settlement"), and (b) the amount of \$2.09 million for VGI's settlement of certain individual investor arbitration claims filed or threatened to be filed against VGI or its affiliates before FINRA.
19. The total amount of remediation inclusive of these offsets is \$92.91 million, which Vanguard shall pay into a Fair Fund established by the SEC for the benefit of Harmed Investors as will be described in the Order Instituting Administrative and Cease-and-Desist Proceedings against Vanguard Group, Inc., Admin. Proc. File No. 3-\_\_\_\_\_ with the SEC (the "SEC Order"). In the event Vanguard does not pay the \$40 million under the Class Action Settlement, as a result of the termination or withdrawal of the Stipulation of Settlement or the Court's rejection of the Class Action Settlement, Vanguard shall pay the \$40 million into the SEC's Fair Fund within ten (10) days of such termination or rejection.
20. Vanguard shall pay an administrative penalty of \$13,500,000 into the SEC Fair Fund for distribution to Harmed Investors (the "Penalty").
21. Pursuant to the terms of the SEC Order, Vanguard will pay disgorgement in the amount of \$14,700,000, plus prejudgment interest in the amount of \$3,500,000 into the SEC Fair Fund for distribution to Harmed Investors. These amounts in this paragraph 21 will be deemed satisfied by Vanguard's payment of the amounts in paragraphs 16-19.
22. Each Settling State shall include language in its order directing that payment by Vanguard of the full Remediation Payment, less any offsets or credits to which Vanguard is entitled, and the Penalty resolves any and all potential claims or issues that could have been brought or could be brought by or on behalf of the Settling State, and which may have arisen from this investigation as to Vanguard and any of its current or former employees, officers, directors, or trustees.

**C. Supervisory Review to Lead States**

23. In consideration of the Settlement, the Settling Jurisdictions will:

- i. Terminate the Investigation as defined herein.
- ii. Not seek additional monetary penalties or remedies from Vanguard, the Trust, its affiliates, directors, officers, employees, associated persons, and agents relating to the specific failures and deficiencies identified by the Jurisdictions in the course of the Investigation relating to disclosures, or VMC’s supervision of certain registered agents and their roles concerning the reduction of the investment minimum for Institutional TRFs.
- iii. If, after the Settlement is executed, Vanguard fails to comply with any of the terms set forth herein, a Jurisdiction may institute an action to have this agreement declared null and void. In the event that a Jurisdiction believes that Respondents have defaulted in the performance of any obligation set forth in this Settlement, the Jurisdiction will provide written notice of such default to the designated representative of Respondents. Respondents shall then have fourteen (14) days to respond and an additional thirty (30) days to certify that any default has been cured, which periods may be extended by the Jurisdiction (“Response and Cure Period”). Unless the Jurisdiction in its sole discretion determines that exigent circumstances exist, the Jurisdiction will not initiate any civil action or other proceeding to enforce or for violations of this Settlement until after the expiration of the Response and Cure Period. Upon issuance of an appropriate order, after a fair hearing, a Jurisdiction may reinstitute the actions and investigations referenced in this Settlement Term Sheet.

**WHEREFORE**, the following signatures are affixed hereto on the dates set forth below:

\_\_\_\_\_  
**Jorge L. Perez**  
Commissioner  
Connecticut Department of Banking

**Dated:** \_\_\_\_\_

\_\_\_\_\_  
**Elizabeth M. Harris**  
Chief  
New Jersey Bureau of Securities

**Dated:** \_\_\_\_\_

**For Vanguard Group, Inc./Vanguard Marketing Corporation**

---

**Lori A. Martin, Esq., Counsel for Vanguard  
WilmerHale LLP  
7 World Trade Center  
250 Greenwich Street  
New York, New York 10007**

---

**Jaliya Faulkner  
Principal, Deputy General Counsel  
Head of Regulatory Enforcement and Investigations  
The Vanguard Group, Inc.  
425 Morehall Road  
6<sup>th</sup> Floor  
Malvern, PA 19355**

**[STATE SIGNATURE PAGES FOLLOW]**



## APPENDIX A

Following the execution of the Settlement Term Sheet, each of the following Jurisdictions will draft and execute Jurisdiction-specific consent agreements and administrative orders that will have the force of law within that Jurisdiction. Consistent with the Settlement Term Sheet Preamble, each Jurisdiction's order will be consistent with the to-be-drafted and agreed upon Form of Order.

ALABAMA  
ALASKA  
ARIZONA  
ARKANSAS  
CALIFORNIA  
COLORADO  
CONNECTICUT  
DELAWARE  
DISTRICT OF COLUMBIA  
FLORIDA  
GEORGIA  
GUAM  
HAWAII  
IDAHO  
ILLINOIS  
INDIANA  
IOWA  
KANSAS  
KENTUCKY  
LOUISIANA  
MAINE  
MARYLAND  
MICHIGAN  
MINNESOTA  
MISSISSIPPI  
MISSOURI  
MONTANA  
NEBRASKA  
NEVADA  
NEW HAMPSHIRE  
NEW JERSEY  
NEW MEXICO  
NORTH CAROLINA  
NORTH DAKOTA  
OHIO  
OKLAHOMA

OREGON  
PENNSYLVANIA  
PUERTO RICO  
RHODE ISLAND  
SOUTH CAROLINA  
SOUTH DAKOTA  
TENNESSEE  
TEXAS  
U.S. VIRGIN ISLANDS  
UTAH  
VERMONT  
VIRGINIA  
WASHINGTON  
WEST VIRGINIA  
WISCONSIN



---

**Travis J. Iles**  
**Securities Commissioner**  
**Texas State Securities Board**

**Dated: January 15, 2025**