

# Washington DFI Joins \$106 Million Multistate Settlement With Vanguard Over Big Tax Bills, SEC to Coordinate Remediation

*Company failed to supervise certain registered persons and to disclose potential tax consequences to hundreds of thousands of investors cited in settlement*

OLYMPIA, WA, UNITED STATES, January 18, 2025 /EINPresswire.com/ -- The Washington State

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It's inexcusable for companies to not inform investors of potentially high-cost consequences related to changes implemented in their investment products and plans.”

*DFI Director Charlie Clark*

Department of Financial Institutions (DFI) Securities Division 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). The taskforce is taking this action against 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 multistate task force investigation coordinated through the North American Securities Administrators Association's (NASAA) Enforcement Section Committee. The task force conducted 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.

"It's inexcusable for companies to not inform investors of potentially high-cost consequences

related to changes implemented in their investment products and plans," DFI Director Charlie Clark said. "Our agency continues to work with regulatory partners throughout the country to ensure Washington investors are properly informed in a timely manner when their hard-earned money is at stake."

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 who were impacted by this action and will administer the remediation payments, through its Fair Fund program, to compensate investors for the capital gains taxes.

If you live in Washington State and have questions or concerns about your investments or financial professional, please contact Washington DFI's Securities Division at 360-902-8760 or [securities@dfi.wa.gov](mailto:securities@dfi.wa.gov). Washingtonians may file a complaint about one of DFI's licensees at [DFI Consumer Complaint Form](#).

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The Washington State Department of Financial Institutions regulates a variety of financial service providers such as banks, credit unions, mortgage brokers, consumer loan companies, payday lenders and securities brokers and dealers. The department also works to improve financial education throughout Washington through its outreach programs and online clearinghouse [www.dfi.wa.gov/financial-education](http://www.dfi.wa.gov/financial-education). In addition to posting information about licensees and administrative actions, DFI uses the Web and social media to provide financial education information: [www.twitter.com/DFIConsumers](https://twitter.com/DFIConsumers) □ <https://dfi.wa.gov/financial-education/blog> □ <https://www.youtube.com/user/WADFI> □ [www.homeownership.wa.gov](http://www.homeownership.wa.gov) □ [www.instagram.com/wastatedfi/](https://www.instagram.com/wastatedfi/) □ [www.linkedin.com/company/state-of-washington-department-of-financial-institutions/](https://www.linkedin.com/company/state-of-washington-department-of-financial-institutions/)

About the Division of Securities □ [www.dfi.wa.gov/sd](http://www.dfi.wa.gov/sd) □ 360-902-8760 □ 877-746-4334

The Division of Securities regulates securities investments, franchises, business opportunities, and off-exchange commodities sold in Washington and the firms and individuals that sell these products or provide investment advice. The Division handles complaints, conducts investigations, and takes appropriate enforcement actions to protect investors and combat fraud.

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