

Remarks by John C. Bogle, Founder, The Vanguard Group

For: Jay Clayton, Chairman U.S. S.E.C.

Date: June 19, 2018

I am pleased to say a few words about fiduciary duty in this meeting with the Chairman and leaders from the Institute for the Fiduciary Standard. My name is John (“Jack”) Bogle. I founded the Vanguard mutual fund complex in 1974 and the first index mutual fund in 1975. Overseeing \$5 trillion in assets, Vanguard is now the world’s largest mutual fund manager, and index funds now drive the mutual fund industry, accounting for 43% of equity fund assets. Since 2008, investors had added \$2.3 trillion to their equity index fund holdings and withdrawn \$1.0 trillion from their holdings of actively managed equity funds.

I mention these massive numbers not to brag, but to make a point: Vanguard and indexing have grown because both were designed to serve investors, not fund managers, not fund distributors, and not stockbrokers. (We eliminated all sales commissions on our funds forty-plus years ago.) “Putting investors first” has been our mission from the beginning.

By way of full disclosure, I hold a strong belief that fund managers and marketers have a fiduciary duty to the investors who are their clients. So it won’t surprise you to know that I applaud the principles that underlie the proposal “Best Interest” Regulation.

I’ve reviewed the proposal by you and your fellow commissioners and the SEC staff to harmonize the regulation of those different providers of financial services (stockbrokers and registered investment advisers) to retail investors:

- To eliminate investor confusion between the two positions.
- To substantially eliminate any mismatches between investor expectations and understanding on the one hand, and market and legal realities on the other.
- To require that investment professionals—whether advisors or brokers—follow standards of conduct that embody key fiduciary principles and not placing their interests ahead of the interests of their clients.

I salute you all for this astute statement of the need for strong and parallel regulation designed to serve investors.

I confess that I have not yet read in its entirety the Commission's 900-page memorandum describing how Regulation Best Interest will be implemented. But in my long experience as an entrepreneur and CEO, I have consistently said: "Ideas are a dime a dozen. Implementation is everything."

The implementation of the proposed regulation will face challenges from those with a vested interest in protecting their present business model. I urge the Commission to stand firm in developing regulations that eliminate or mitigate conflicts of interest wherever possible; rather than merely requiring disclosure of conflicts, brokers and advisers should provide a mandatory compliance from showing the professionals' income from all relevant sources. Investors don't need more fine print, they need hard data, and they need a fair shake.

Today we look at investment advisers and stockbrokers as different businesses. But it is no secret that they are becoming more alike as significant numbers of brokers have turned to the fee-based model over the commission-based model. I believe that trend will continue to grow, even accelerate—all the more reason to harmonize the regulation. The rise of the embryonic "Robo-advisers" will impact both brokers and advisers and the exchange-traded fund (ETF) is already embraced by elements of both camps. I'm confident that the implementation of Regulation Best Interest will not ignore these issues of tomorrow.

I applaud the Commission's attempt to ensure that the best interests of investors are not superseded by the interests of service marketers—it is the essence of fiduciary duty. The arc of fiduciary duty may be long, but it is bending in a direction that will serve the national interest and the interest of investors.