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Submitted via email to: alp@iosco.org, f.bongiovanni@iosco.org
Submitted via survey link to: Qualtrics Survey | Qualtrics Experience Management

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Re: Consultation Report: Digital Engagement Practices (DEPs)

Dear Sir or Madam,

The Vanguard Group, Inc. ("Vanguard")[1] appreciates the opportunity to comment on the International Organization of Securities Commissions' ("IOSCO") consultation report ("Consultation") regarding digital engagement practices ("DEPs"), including techniques such as notifications, nudges, and gamification.[2] We support IOSCO's efforts to examine DEPs and propose good practices for using DEPs. We agree with IOSCO that DEPs, when used appropriately, can increase financial literacy, enhance investor engagement, and improve investment outcomes, particularly for retail investors. However, like IOSCO, we also recognize the potential risks associated with certain DEPs, including the risk that some market intermediaries could use DEPs in ways contrary to investor interests.[3]

As a unique, investor-owned asset manager dedicated to improving outcomes for over 50 million individual investors worldwide, Vanguard has long advocated for business practices and policies that seek to protect individual investors and put investor interests first. Our core purpose is to take a stand for all investors, to treat them fairly, and to give them the best chance for investment success. We further that purpose in a variety of ways, including by offering low-cost, high-quality investments, advice, and brokerage options, and providing investors with the insights they need to make well-informed investment decisions.

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[1] Vanguard is a leading global investment management organization that offers a large selection of low-cost mutual funds, exchange-traded funds, investment advice, and related services to individual investors, financial professionals, and institutional investors. Together with its wholly owned affiliated investment advisers, Vanguard operates in the United States, Europe, Australia, Canada, and Mexico, where it acts as investment adviser to more than 400 funds.

[2] Consultation Report: Digital Engagement Practices ("DEPs") (19 November 2024), *available at* https://www.iosco.org/library/pubdocs/pdf/IOSCOPD777.pdf.

[3] *See* Vanguard Letter from Matthew Benchener, Managing Director, Personal Investor, Vanguard, to Vanessa A. Countryman, Secretary, US Securities and Exchange Commission (10 October 2023) ("Conflicts of Interest Associated with the Use of Predictive Data Analytics by Broker-Dealers and Investment Advisers"), *available at* https://www.sec.gov/comments/s7-12-23/s71223-270559-653082.pdf.

As explained in more detail below, we use digital tools, including DEPs, to encourage retail investors to consider their risk profile, improve portfolio diversification, and generally take an active role in their financial wellness. We also recognize that DEPs can be used to promote potentially unhealthy investment behavior, and we support IOSCO's efforts to advance good practices to curtail the use of DEPs that undermine investor goals while protecting DEPs that support them.

Vanguard uses DEPs to promote investor success around the globe.

Vanguard leverages technology, including DEPs, across all areas of the firm to encourage healthy investing behavior and help retail investors achieve investment success. Vanguard's brokerage and advice businesses use a variety of technologies, such as DEPs, to interact with investors and help them understand financial products. Through careful analysis and data-driven experimentation, we have found that responsibly implemented DEPs improve investor outcomes by decreasing costs, driving engagement, and improving risk management.

We provide four examples of digital practices below to illustrate how we deploy DEPs to improve our retail clients' investment outcomes. These examples demonstrate how Vanguard uses technology that considers the interest of the client when deploying nudges and providing targeted educational or marketing material.

United States—Nudges designed to boost retirement success. Vanguard operates a recordkeeping business for US employers who sponsor retirement savings plans[4] for their workers. To encourage workers to participate in these plans—and to enhance their retirement security—many employers offer to match worker contributions up to a certain amount (e.g., a dollar-for-dollar match up to 4% of a worker's salary). To help clients utilize this employee benefit, Vanguard's retirement business identifies clients whose employer offers to match retirement contributions and sends communications (or "nudges") designed to educate retirement investors about opportunities to improve their financial outcomes and increase the odds of achieving a successful retirement, such as informing them that they are not taking full advantage of this match and providing helpful resources if they would like to. We also deploy nudges to support clients to consider boosting their personal retirement savings. For our self-directed US clients who rely on individual retirement accounts ("IRAs") to save for retirement, our technology reviews contribution data and encourages clients to contribute earlier in the year to benefit from compounding and potentially maximize returns. We also nudge non-contributors so they consider making at least one contribution per year because even one contribution annually can build momentum and returns that compound over time. Our clients are undeniably better off as a result of these prompts. Approximately 60% of

[4] A retirement savings plan in the United States refers to different types of employee benefit plans that provide retirement income or defer income until termination or covered employment or beyond. One example is a 401(k) plan—a type of defined contribution plan that does not promise a specific amount of benefits at retirement. Instead, workers who participate in 401(k) plans assume responsibility for their retirement income by electing to defer a portion of their salary which is instead contributed on their behalf, before taxes, to the 401(k) plan.

401(k) plan participants took action after receiving a nudge from Vanguard,[5] and 14,000 IRA clients acted after Vanguard nudged them, boosting their retirement savings by $50 million.

United States—Educational engagement with recently onboarded clients. Our research showed that a large population of Vanguard retail clients in the United States who opened a brokerage account deposited money into their account but did not purchase any securities. As a result, their cash remained in a default short-term settlement vehicle. Vanguard informed these clients that their cash was sitting in the default settlement option, asked them to consider their investment goals, and provided a link to a web page where clients could explore their different investment options. Providing this information helped ensure these clients were aware of their cash exposure and had the opportunity to decide whether to seek market returns, which resulted in over $250 million being invested through our clients' own choices instead of in the default fund.

Australia—Engagement with retirement planning. Our research shows that only 27% of working-age Australians are confident about their retirement[6], leading many to miss out on living their best and fullest retirement. To address this, Vanguard introduced Future Forecast within the investment platform used by our individual retirement account (superannuation) members. This digital experience allows clients to respond to targeted questions to project their superannuation balance at their desired retirement age and estimate sustainable annual drawdowns, making it easier for clients to identify if they are on track for their desired retirement goal. Since the launch of Future Forecast, 45.9% of superannuation members who logged in to Vanguard's retail investment platform have initiated a forecast, with 32.6% of them exploring additional contributions or other strategies to enhance their retirement outcomes. By providing a simple, more personalized financial outlook, Future Forecast empowers superannuation members to proactively plan for a confident retirement.

Europe (United Kingdom)—Identifying clients with an interest in managed services. Vanguard uses digital technologies, such as nudges, to help prospective direct UK retail investors determine if Vanguard's Managed Services ISA ("MISA") is appropriate for them. A MISA can potentially improve investor outcomes over time by creating an investment plan aligned with an investor's attitude to risk and a portfolio of investments aligned with their financial goals.[7] Prospective individual investors that indicate an interest in managed services are prompted with a series of questions about the specificity of their investment objective, expected investment amount, degree of desired support, and expected investment duration. This tool is designed to help direct retail investors decide if a MISA is a good fit for their individual needs based on their answers to the questionnaire, or whether our self-managed service is more appropriate.

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[5] *See* webcast by Vanguard titled "A Look Ahead with Vanguard," (27 January 2023), at 41:10 – 41:25, *available at* https://corporate.vanguard.com/content/corporatesite/us/en/corp/articles/a-look-ahead-2023.html.

[6] *See* Vanguard research titled "How Australia Retires," (June 2024), at p. 24, *available at* https://aemdam.assets.vgdynamic.info/assets/intl/australia/shared/documents/media-releases/Vanguard_2024_HAR.pdf.

[7] *See* article by Vanguard titled "Where should I invest my ISA?" (8 January 2025) *available at* https://www.vanguardinvestor.co.uk/articles/latest-thoughts/investing-success/where-should-i-invest-my-isa.

These examples demonstrate just a few ways we use DEPs to improve investor outcomes by providing investors with important information on their investment options to help lower their costs, increase their retirement, or better align with their own investment goals.

Regulatory oversight of DEPs should protect the use of DEPs to improve investment outcomes and leverage existing standards, where appropriate.

Incorporating technology, such as DEPs, into the investment process has been shown to improve investor understanding, decision-making, and outcomes, and we believe it should be protected by regulators. Toward that end, we appreciate that the Consultation differentiates between pro-investor DEPs and those that have no investor benefit or that may even be detrimental to investors but beneficial to market intermediaries. To promote the use of DEPs for savings and investment activities that align with investor interests (e.g., collecting an employer's full retirement contribution match or offering specific investment services to clients with a perceived interest or need for the service), global policymakers should build on existing local legal and regulatory frameworks that promote pro-investor behavior. Similarly, authorities should leverage existing investor protection standards to establish clear expectations and target areas where investor and corporate interests *diverge* (e.g., where a market intermediary encourages a client to take an action that benefits the market intermediary but that has no clear client benefit, or potentially *undermines* the client's stated goals, such as encouraging frequent short-term trading or higher fee products).

As the Consultation notes, several IOSCO members already have existing regulatory provisions that can be used to protect investors from harmful DEPs. In the United States, for example, an array of US Securities and Exchange Commission and Financial Industry Regulatory Authority rules effectively prohibit broker-dealers and investment advisers from using technology to mislead or deceive clients. These rules govern a broad array of broker-dealer and investment adviser investor interactions, including recommendations, marketing, advice, and disclosure. We believe these rules—and the associated requirements to fully disclose conflicts of interest—remain highly relevant and are core elements to protecting investors. The same can be said for other jurisdictions, such as Australia, Canada, the European Union ("EU"), Mexico, and the United Kingdom ("UK")—the Consultation provides similar, relevant examples of rules that can be used to protect investors from harmful DEPs under the Australian Securities and Investments Commission (Australia), Canadian Securities Administrators and CIRO (Canada), EU jurisdictions, CNBV (Mexico), and the Financial Conduct Authority (UK).

We suggest any final IOSCO guidance on DEPs state that IOSCO members that have adequate existing investor protection rules applicable to DEPs can continue to rely on these standards—potentially clarified by guidance or other administrative tools if needed—rather than assuming that DEP-specific regulations are always needed. Similarly, IOSCO should encourage member organizations to ensure that their regulatory regimes continue to foster pro-investor uses of DEPs while focusing on those that threaten investor goals. To that end, we generally agree with the themes proposed in IOSCO's good practices as they will serve as helpful guidance for IOSCO members and market intermediaries, particularly in circumstances where an IOSCO member determines to supplement its existing investor protection rules applicable to DEPs.

This approach would encourage regulatory guidance about the appropriate use of digital tools that can readily evolve alongside the technology itself and would provide market intermediaries clarity that they may continue to use pro-investor technologies while chilling the use of harmful ones. Imposing a broad technology-focused framework to certain technologies and investor interactions could create regulatory ambiguity and uncertainty and directly impair innovation designed to benefit investors.

Conclusion

Ideally, any final guidance would be comprehensive enough to ensure investors are not pushed into products or activities that undermine their financial health or stated goals and nuanced enough to protect DEPs that support them. Additionally, any final guidance should allow for market intermediaries to continue developing and responsibly implementing new digital practices as technology evolves to continue giving investors the best chance for investment success.

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Vanguard appreciates the opportunity to engage in this Consultation process and hope our observations and examples are useful. If you have any questions or would like to discuss our views further, please contact Richard Withers, Head of International Public Policy, at richard.withers@vanguard.co.uk or Lindsay Kolb, Senior Policy Advisor—Retirement, Advice, and Tax at lindsay_j_kolb@vanguard.com.

Sincerely,

/s/ Ricardo R. Delfin

Ricardo R. Delfin
Principal, Global Head of Regulatory and Public Policy
The Vanguard Group, Inc.