Vanguard Implements Omnibus Policy

By Staff, Institutional Investor, August 19, 2005

The Vanguard Group is adding disclosure to its prospectuses that highlights its inability to fully enforce its policies when it comes to omnibus accounts. “When intermediaries establish accounts in Vanguard funds for their clients, we cannot always monitor the trading activity of individual clients,” according to a filing with the Securities and Exchange Commission. According to the filing, Vanguard monitors activity at the omnibus level – aggregated transactions from multiple parties – and then further investigates anything it finds to be suspicious. It also says that while intermediaries are required to assess fees, not all may do it consistently and Vanguard is not responsible. Intermediaries that sell Vanguard funds are required to start assessing redemption fees within the next year, but may be granted more time if systems’ issues get in the way, according to the filing.

A number of mutual fund companies have started to add disclosure to their prospectuses, limiting their responsibility in the case of omnibus accounts. Seventy-percent of the top 50 fund companies use redemption fees in an attempt to ward off market timers, but 97% of those exclude, waive or limit the enforcement of those fees for omnibus accounts, according to a recent study. “More fund groups are disclosing in prospectus filings the impossibility of enforcing market timing restrictions on omnibus accounts,” said Niels Holch, executive director of the Coalition for Mutual Fund Investors, which undertook the study. A Vanguard spokesman did not return calls.