VANGUARD GROUP, INC., JOHN E. SCHADEL

Proposal and Comment Information

Title: Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks; Bank Holding Companies (Reg O and Y), R-1896

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Submitter Information

Organization Name: Vanguard Group, Inc.

Organization Type: Company

Name: John E. Schadel

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Please see attached.

Vanguard

P.O. Box 2600
Valley Forge, PA 19482-2600
www.vanguard.com

November 4, 2026

Benjamin W. McDonough, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Docket No. R-1896 and RIN 7100-AH27 - Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks; Bank Holding Companies

Dear Mr. McDonough,

Vanguard[1] appreciates the opportunity to comment on the Board of Governors of the Federal Reserve System's ("Board") proposal to amend Regulation O ("Reg O"), which governs extensions of credit by member banks to their executive officers, directors, and principal shareholders.[2]

Vanguard recognizes the important role Reg O has in protecting banks against the potential harm that emanates from self-dealing by insiders. Credit decisions based on influence—rather than prudent and safe banking practices—can create risks not just for individual banks, but also for the banking system and federal safety net designed to protect it. As the Board notes, Reg O has not kept pace with significant changes in the investing landscape, and the Proposal is a step forward in updating an important safeguard to our banking system.

Vanguard supports the Board's proposed modernization of Reg O. The Proposal appropriately balances the need to shield credit decisions from the inappropriate influence of insiders with the objectives of facilitating investment in, and the extension of credit to, public companies and avoiding unnecessary regulatory burden. Since 2019, the banking regulators have furthered these goals through annual no-action relief, which exempted banks and the "related interests" of certain asset managers from Reg O's limits and compliance obligations so long as certain conditions were met.[3] We support codification of that relief to provide regulatory certainty to market participants and respectfully offer two suggestions that should further the Board's goals

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[1] "Vanguard" refers to the Vanguard Group, Inc., and its subsidiaries, which act as investment advisers under the Investment Advisers Act of 1940. The Vanguard Group, Inc. provides corporate, administrative, distribution, and investment advisory services to over 200 U.S.-domiciled investment companies registered under the Investment Company Act of 1940, is subject to the oversight of each fund's board, and offers over 200 additional investment companies in markets outside the United States.

[2] Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks; Bank Holding Companies, 91 Fed. Reg. 49526, https://www.govinfo.gov/content/pkg/FR-2026-08-04/pdf/2026-15777.pdf (the "Proposal").

[3] *See* Bd. of Governors of the Fed. Rsrv. Sys., SR 19-16: Status of Certain Investment Funds and Their Portfolio Investments for Purposes of Regulation O and Reporting Requirements under Part 363 of FDIC Regulations (Dec. 27, 2019), https://www.federalreserve.gov/supervisionreg/srletters/sr1916.htm.

of modernizing Reg O, reducing unnecessary burdens, and promoting a more stable and efficient allocation of capital. Specifically, we suggest the Board:

- **Explicitly permit banks implementing Reg O with respect to investments by a qualified fund complex ("QFC") to rely on existing passivity agreements between the QFC and the appropriate federal banking regulator**, rather than adding more burden and uncertainty via the proposed incorporation of the Regulation Y ("Reg Y") control standard.[4] As discussed in more detail below, such an approach would provide greater clarity to banks and asset managers about their respective obligations.
- **Revise the proposed definition of "non-index fund" so that it does not include broad-based industry and sector index funds.** The Proposal's standard for the term "non-index fund" includes—without explanation—sector- and industry-focused index funds, even if they are broad-based[5] and subject to the same passivity standards and non-control guardrails as other index funds. Carving out those funds effectively creates a "non-index fund index fund" class of funds for Reg O purposes, inviting confusion and potential compliance risks. Given the importance of simplicity and clarity in the Reg O space, we encourage the Board not to include broad-based sector- and industry-focused index funds in its definition of "non-index fund."

I. Introduction

Vanguard is a unique asset manager, structured as a 'mutual' mutual fund company. Vanguard is owned by our U.S. funds, which in turn are owned by their shareholders. We serve more than 50 million individual investors with a range of needs and preferences, and unlike many asset managers, we do not manage separate accounts for large institutional investors such as pension plans or sovereign wealth funds.

Fifty years ago, Vanguard launched the First Index Investment Trust which is now the Vanguard 500 Index Fund. The fund, which was the first of its kind offered to individual investors, sought to track the performance of the S&P 500 Index by buying the securities of the index's constituent companies and holding them in proportion to their weight in the index.[6] Because index funds are designed to track third-party benchmarks instead of attempting to outperform them, index funds can provide investors with diversified exposure to the U.S. market at a very low cost, allowing them to keep—and compound—more of their returns. Vanguard is a passive investor both in the inherent nature of its investment program and in that it does not seek to control or influence decisions by the boards or management teams of the companies in which Vanguard funds have

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[4] *See* 91 Fed. Reg. at 49531.
[5] Vanguard observes the term "broad-based index," is not consistently defined across regulators, but the term "index" is better understood and we believe it is sufficiently narrow as it stands. Specifically, regarding the use of the term "broad-based" we observe several different definitions.
[6] *Vanguard Celebrates 50th Anniversary of Vanguard 500 Index Fund*, Vanguard (Aug. 31, 2026), https://corporate.vanguard.com/content/corporatesite/us/en/corp/who-we-are/pressroom/press-release-50th-anniversary-vanguard-500-index-fund-083126.html.

invested. Vanguard's passivity is further reinforced by the guardrails referenced below. Index fund positions are driven by the presence of a company, and its weighting, in a third-party benchmark; Vanguard's index funds only sell positions based on investor flows, or changes in the underlying index.

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." This approach works. For instance, $10,000 invested in Vanguard's 500 Index Fund in 1976 is worth over $2,000,000 today. Consistent with our passive funds' long-term approach, Vanguard investors tend to be particularly long-term—their average holding period for their mutual fund investments is over five years, which is roughly two years longer than investors with other mutual fund providers.

Today, Vanguard's index funds apply this particularly passive form of investing across a range of market segments. As more investors choose low-cost index investing, assets flow into these funds, and the aggregated ownership of these investors automatically increases in a wide range of public companies, including banks.[7] These investments are for the purpose of experiencing market returns—not to control companies—and Vanguard leaves management decisions to company boards and management teams and public policy decisions to policymakers.

Vanguard has long recognized the special responsibility associated with being an asset manager for more than 50 million investors. We have been a leader in establishing clear guardrails around passive funds' limited role in corporate governance matters. For example, Vanguard has:

- *Established passivity agreements with federal and state regulators* across a range of sectors to ensure funds do not exercise control over portfolio companies.[8]
- Diffused its funds' voting power and added more voices to the corporate governance ecosystem by *delegating proxy voting power of externally advised active funds to the third-party investment advisers that manage those funds*.
- *Established a clear, transparent, and accountable stewardship program focused on maximizing long-term shareholder value.* We do not solicit proxies, nominate directors, or belong to third-party organizations that affect our engagement activities or proxy voting decisions.
- *Established "Investor Choice," the first and largest retail proxy voting program* empowering retail investors in 32 U.S. equity index funds—with the intent to scale across

[7] *See* 91 Fed. Reg. at 49531 (noting that "[i]ndex funds make investment decisions to buy and sell shares of companies … to closely mirror … underlying third-party indices").
[8] *See, e.g.*, Letter from Mark E. Van Der Weide, Gen. Couns., Bd. of Governors of the Fed. Rsrv. Sys. to Anne E. Robinson, Managing Dir., Gen. Couns., The Vanguard Grp., Inc. (Nov. 26, 2019), https://www.federalreserve.gov/supervisionreg/legalinterpretations/bhcchangeincontrol20191126a.pdf; Investor Passivity Agreement Between the Fed. Deposit Ins. Corp. and The Vanguard Grp., Inc. (Dec. 27, 2024), https://www.fdic.gov/bank-examinations/passivity-agreement-vanguard-group-december-27-2024; Applications of Vanguard Cap. Mgmt., LLC and Vanguard Portfolio Mgmt., LLC to the Nev. Gaming Comm'n (Jun. 15, 2026).

all U.S. equity index funds—to actively participate in proxy matters proportionate to their ownership.[9]

Given the particularly passive nature of index funds, the Board appropriately recognizes that "index-based funds … are less likely to seek to influence the lending decisions of banks"[10] and we agree with the Board that banks should therefore be subject to a streamlined Reg O compliance burden with respect to these funds. Indeed, we submit that the very nature of the Vanguard index funds, and the passivity guardrails that we have developed, make Vanguard and similarly situated funds highly unlikely to influence lending or other decisions.

II. Recommendations

A. The Board should explicitly permit banks to rely on existing passivity agreements between QFCs and federal banking regulators rather than adding more burden and uncertainty via the proposed incorporation of the Reg Y control standard.

Such an approach would provide greater clarity to banks and asset managers about their respective obligations.

The Proposal appropriately seeks to update Reg O to provide clarity regarding compliance obligations with respect to investments in banks by QFCs. While we believe this could be a step forward in providing clarity to banks and QFCs, the Proposal ignores existing passivity frameworks between these QFCs and the Board, which have been developed through extensive consultation. Further, the Proposal unintentionally *adds* compliance burden and uncertainty via the incorporation of Reg Y.[11]

The Board correctly recognizes that providing the option of demonstrating that a principal shareholder is a QFC would reduce the compliance burden on the bank while ensuring that the bank may lend to companies deemed to be "related interests" (i.e., portfolio companies whose securities the QFC holds), all without risk of undue or improper influence on lending decisions. Since 2019, the banking regulators have furthered these goals through no-action relief, which exempted banks and the related interests of certain asset managers from Reg O's limits and compliance obligations so long as "asset managers and banks satisfy certain conditions designed to ensure that there is a lack of control by the asset manager over the bank."[12] Vanguard and other asset managers comply with these conditions by adhering to explicit passivity agreements

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[9] Today, over $3.6 trillion in equity index fund assets are eligible to participate in the program and we are committed to expanding access further. *See Vanguard Investor Choice*, Vanguard, https://corporate.vanguard.com/content/corporatesite/us/en/corp/about-our-funds/proxy-voting-across-funds/investor-choice.html (last visited Sept. 14, 2026).

[10] 91 Fed. Reg. at 49531.

[11] *Id.*

[12] Bd. of Governors of the Fed. Rsrv. Sys., SR 19-16: Status of Certain Investment Funds and Their Portfolio Investments for Purposes of Regulation O and Reporting Requirements under Part 363 of FDIC Regulations (Dec. 27, 2019), https://www.federalreserve.gov/supervisionreg/srletters/sr1916.htm. Among these conditions are ownership limits for individual funds and the fund complex, and prohibitions on extensions of credit to a borrower that are not made using prevailing market terms. *See id.*

established by the Board (and the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency), and Vanguard has gone beyond them via the additional passivity steps outlined above.

While we appreciate that the Board may be seeking uniformity amongst its different control standards, the Proposal does not take into consideration long-standing and effective passivity guardrails while *adding* yet another standard. Though there is substantial overlap between the passivity agreements and the Reg Y rebuttable presumptions of control, the incorporation of Reg Y establishes a tiered control framework that will pose compliance challenges for all involved. The tiered Reg Y presumptions would require a review whenever a QFC's ownership crosses certain ownership thresholds because different control criteria apply at each level. Passive QFCs make purchase decisions in response to daily fund flows and changes to the underlying benchmark. This means the ownership level of the fund can change on a regular basis. The tiered Reg Y presumptions were not designed to address this type of situation. Instead, they were designed to address situations where ownership levels change much less frequently. Imposing the tiered presumptions would introduce a significant compliance burden in this context (especially because, among other things, the Proposal does not clarify that the Reg Y presumption of control analysis applies just with respect to the bank's relationship with a QFC, as opposed to the bank's relationships with each portfolio company whose securities the QFC also owns).

Instead of unnecessarily complicating this matter with the incorporation of Reg Y, the Board should permit banks to simply rely on a QFC's existing passivity agreements with the Board or appropriate federal banking regulator, consistent with the Reg O no-action relief the banking agencies have extended for the past seven years[13] as well as the Board's own statement at the time it amended Reg Y in 2020.[14] These agreements already exist and are enforceable directly between the regulator and the QFC. If a QFC violates the passivity agreement, the QFC can be held to account by the regulator directly. Absent some fault on the bank's side, it, and other innocent related interests, would be unaffected.

Vanguard also strongly supports more clarity and consistency in these standards and—as we have stated previously—encourages the federal banking agencies to work together to establish an improved uniform passivity standard, separate from Reg Y, under the Change in Bank Control

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[13] *See* Bd. of Governors of the Fed. Rsrv. Sys., SR 25-6: Status of Certain Investment Funds and Their Portfolio Investments for Purposes of Regulation O and Reporting Requirements under Part 363 of FDIC Regulations (Dec. 19, 2025), https://www.federalreserve.gov/supervisionreg/srletters/SR2506.pdf ("[T]he Board will presume that a fund complex meets the eligibility criteria with respect to its investment in the bank if the fund complex has provided passivity commitments to the Board in connection with a legal opinion issued by the Board's General Counsel, permitting the fund complex to directly or indirectly acquire up to 15 percent of the shares of a bank without making a filing under the Change in Bank Control Act, Bank Holding Company Act, or Home Owners' Loan Act.").

[14] In its revisions to Reg Y in 2020, the Board stated that it "[did] not intend to revisit existing structures that were previously reviewed by the Federal Reserve System and have not changed materially," such as control letters from the Board's General Counsel. Control and Divestiture Proceedings, 85 Fed. Reg. 12398, 12409 (Mar. 2, 2020), https://www.govinfo.gov/content/pkg/FR-2020-03-02/pdf/2020-03398.pdf.

Act ("CBCA") and use that standard *both* to replace existing passivity agreements and for QFC determinations under Reg O. It would be consistent with the stated objectives of all three bank regulatory agencies for transparency and uniformity that there be a single, consistent interpretation of CBCA's standards for passivity.[15] Instead, each of the federal banking regulators uses different standards to assess whether an acquiring person or entity has sufficiently rebutted the presumption of control that their investments raised.

This existing regulatory inconsistency would be made worse by the Proposal's incorporation of Reg Y's control framework. Under the Proposal, a QFC would be subject to the different passivity standards of each federal banking regulator under CBCA and the Bank Holding Company Act *and* Reg Y's tiered control framework by virtue of its incorporation into Reg O—four regimes in total, not counting standards imposed by various state regulators. These duplicative compliance burdens address many of the same concerns but with additional, unnecessary complexity. The Board's concerns would be better served by relying on existing passivity agreements (or, in their absence, a uniform non-control standard). This approach would effectively ensure that QFCs are unable to influence the banks whose securities they own while reducing the number of overlapping compliance regimes to which banks and QFCs are subject.

B. The Board should revise the proposed definition of "non-index fund" so that it does not include broad-based industry and sector index funds.

The proposed definition of non-index fund would apply to certain index funds that track an industry or sector despite those funds: (1) operating under the same passive investment process; (2) being subject to the same passivity and non-control restrictions; and (3) being broadly diversified (e.g., as of February 28, 2026, the number of holdings in the Vanguard Financials Index Fund was 423).[16] Singling out those funds effectively creates a "non-index fund-index fund" class of funds for Reg O purposes, inviting confusion and potential compliance risks. Given the importance of simplicity and clarity in the Reg O space, we encourage the Board not to include index funds that track an industry or sector in its definition of "non-index fund."

To qualify as an index fund under the Proposal, an investment fund must track a "third-party broad-based market index" which, among other things, "provides investors with a performance indicator of the overall applicable securities market [and] is not focused on any specific industries or sectors."[17] This element of the Proposal is without explanation and could burden

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[15] *See* 12 U.S.C. § 4803(a)(3); Regulations Implementing the Change in Bank Control Act, 89 Fed. Reg. 67002, 67002 (Aug. 19, 2024), https://www.govinfo.gov/content/pkg/FR-2024-08-19/pdf/2024-18187.pdf; *see also* Letter from The Vanguard Grp., Inc. to the Fed. Deposit Ins. Corp., Comment on Proposed Rule (RIN 3064-AG04), https://www.fdic.gov/federal-register-publications/vanguard-group-inc-ricardo-r-delfin-rin-3064-ag04 (noting that "[t]he Riegle Community Development & Regulatory Improvement Act of 1994 requires the federal banking agencies to work jointly to make uniform all regulations and guidelines implementing common statutory policies," of which CBCA is one).

[16] Vanguard Financials Index Fund, Semi-Annual Shareholder Report (Feb. 28, 2026), https://personal1.vanguard.com/funds/tsr/SR5486.pdf.

[17] 91 Fed. Reg. at 49561.

banks attempting to determine which shareholders are QFCs—all without addressing the Board's concern of undue influence.

The Proposal appropriately describes index funds as those that "make investment decisions to buy and sell shares of companies on behalf of investors to closely mirror the risk and return characteristics of underlying third-party indices."[18] The Proposal also correctly notes that this investment process "does not give rise to the type of conflict of interest and self-dealing issues that … [Reg O was] designed to address."[19]

While they invest in certain broad-based market segments rather than the entire market, index funds that track industry and sector indexes operate under this same investment process. Given that sector and industry index funds have the same passive investment strategy and passive engagement approach are subject to the same passivity agreements with the Board as other funds, it is unclear why the Board would carve them out. Classifying industry and sector index funds as non-index funds invites confusion and creates unnecessary compliance complexity that—given Reg O's importance to banks and portfolio companies—should be avoided.[20]

Accordingly, Vanguard recommends that the Board delete the phrase "is not focused on any specific industries or sectors" from the description of third-party broad-based market index while retaining the other parts of the proposed "broad-based third-party index" definition. Those remaining elements would continue to preserve the Board's ability to exclude indexes that could be used to disguise discretionary investment decisions while providing banks and other parties clarity for compliance purposes.

III. Conclusion

Vanguard supports the Proposal and commends the Board for recognizing the important role index funds play in helping millions of Americans meet their financial goals through diversified passive investing in all sectors of the economy.

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Vanguard appreciates the opportunity to comment on the Proposal. If you have any questions or would like to discuss our views further, please contact Samuel D. Keenan, Senior Director of Regulatory Affairs, at samuel_keenan@vanguard.com or Kayla Cooke, Senior Policy Advisor, at kayla_cooke@vanguard.com.

Sincerely,

/s/ John E. Schadl

John E. Schadl
Principal, Deputy General Counsel, Head of Product & Distribution Legal
The Vanguard Group, Inc.

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[18] *Id.* at 49531.
[19] *Id.* at 49530.
[20] *See id.* at 49527.