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Brent J. Fields
Secretary, Securities and Exchange Commission
100 F Street, NE, Washington, DC 20549-1090
Washington, DC 20549

Re: S7-11-18:

Ladies and Gentlemen:

Morningstar, Inc. welcomes the opportunity to comment on the proposal "Covered Investment Fund Research Reports." As a leading independent provider of research on mutual funds, we believe disseminating high-quality investment fund research can help investors reach their financial goals by helping them pick funds most likely to meet their needs. Indeed, as most retail investors invest through funds, research on funds is more important for retail investors than research on equities.

The proposal will help ordinary investors by encouraging more entities to analyze funds, thus providing more-diverse opinions on investors' options. Further, we expect the expanded options for distributing research reports will encourage more analysis firms to cover a greater universe of exchange-traded funds, providing more information to retail investors.

Our lone concern with the proposal is that the Commission has not adequately addressed conflicts of interest that may distort the research broker/dealers produce. As the Commission noted, "distributing broker-dealers may receive compensation from sales loads, 12b-1 fees, shelf space fees, or other revenue-sharing agreements, all of which create financial incentives for broker-dealers to promote and sell funds and potentially to promote and sell particular funds or share classes." Instead of addressing this potential issue, the Commission relies on FINRA rules 2241 and 2210.

FINRA rule 2241 is not an adequate safeguard because it is a disclosure-based standard, and such disclosures will likely not help ordinary investors understand the conflict of interest or the extent to which the research should be disregarded. Further, FINRA rule 2210 is broad and does not contemplate the specific conflict of interest this rule could create. Specifically, although rule 2210 requires communications to be "based on principles of fair dealing and good faith" and "no member may omit any material fact or qualification," this standard can also be met with disclosure. While it might prevent a broker/dealer from writing dramatically better reports on funds from which it received higher-than-average load- or revenue-sharing payments, it would not prevent a broker/dealer from privileging such firms in its research as long as it disclosed a revenue-sharing arrangement.

We suggest an additional requirement: an obligation to eliminate or mitigate these conflicts of interest, mirroring the requirements in the recently proposed "Regulation Best Interest." For example, broker/dealers could move to level revenue-sharing arrangements for all funds on their platforms to mitigate conflicts of interest. While there is no need to be overly prescriptive, we do not believe inviting broker/dealers to put out biased research (as long as they disclose the bias) will best serve investors.

Sincerely,

Aron Szapiro
Director of Policy Research
Morningstar, Inc