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

Re: File S7-26-18

Ladies and Gentlemen:

Thank you for the opportunity to share our views on the request for comment on earnings releases and quarterly reports. Morningstar brings three different perspectives to the questions in the request for comment, including that of 1) a data aggregator with information on more than 50,000 equities worldwide, 2) a team of equity analysts who deploy qualitative and quantitative ratings, and 3) a public company and filer.

In general, we think the robust quarterly disclosures in the United States are extremely important for maintaining the high levels of faith investors have in American securities. The principal problem with earnings releases and 10-Qs today is that earnings releases often come out before 10-Qs and often do not contain critical pieces of information that analysts and investors need to assess a company's fiscal health. Efforts to streamline the system should focus on these timing issues and on ensuring that companies continue to report financial data in a standardized, machine-readable format. While we agree there is sometimes too much focus on short-term profits, we do not believe restricting or eliminating 10-Q filings information would solve this problem, and it would create many additional ones.

Earnings Releases and Quarterly Filings Provide Different, Valuable Pieces of Information

In response to the Commission's questions on the overlap between earnings releases and 10-Q filings, as well as the extent to which each provides value, we believe that the 10-Q filing is extremely valuable to gain a comprehensive picture of an issuer, but earnings releases can add additional context.

The form 10-Q provides valuable information for investors that is often not included in the earnings releases as many such releases contain truncated balance sheets, cash flow statements, and income statements. For example, relying on a balance sheet in an earnings release, an investor might be able to see total assets and liabilities, but not important granular information such as the short-term debt, long-term debt, accounts payable, and accrued expenses that make up the total liability. Cash flow information, which provides important information about a company's fiscal health, is often completely absent from earnings releases. From our perspective as equity analysts, the 10-Q provides the information we need to make an informed assessment of a company's prospects. The Commission should not lift or reduce requirements for companies to report the critical information in the 10-Qs.

The earnings releases, however, often highlight important information that may be buried or decontextualized in the 10-Q. For example, earnings releases may explain the reasons for a one-time boost in profitability; discuss non-GAAP measures such as organic revenue, which may provide better information for period-over-period comparisons; or put earnings in the context of a company's strategy.

As It Considers Aligning Earnings Releases and 10-Qs, The Commission Should Preserve 10-Q Data in iXBRL and Prioritize Reducing the Timing Gap

In response to the Commission's questions about reducing delays between releasing the 10-Q and the earnings release, we believe that doing so would be helpful and that requiring the release of both concurrently would be the ideal solution. Further, reducing the timing gap could facilitate options the Commission is considering for alleviating the burdens related to 10-Q reporting by allowing filers to incorporate information by reference from their earnings release. However, in proposals to better align earnings releases and 10-Qs, the Commission should preserve inline extensible business reporting language, or iXBRL, for all quarterly financial data.

Lags between earnings releases and 10-Q filings can be quite high, which makes it difficult for Morningstar as a data aggregator to ensure we provide the most up-to-date *and* complete information we can on these filings to our investors. The lags in turn mean investors may rely on less complete, less official data to make decisions. In our experience, just 8% of companies for which we process an earnings release and a 10-Q file both on the same day, while 37% file within two days of each other.[1] The gaps include large companies: Of the 10 largest companies by market capitalization that filed earnings releases and 10-Qs for the period ended Sept. 30, 2018, just three filed both within one day, and four had lags of more than 10 days, including a 23-day gap between the 10-Q and earnings release for one filer.

As discussed above, an earnings release often does not have the data we need to provide the kinds of liquidity, asset, profitability, or leverage ratios investors want and need to make informed investing decisions. Having a trickle of information released (in an unstructured format, which is hard to process) followed by a later flood of complete financial data makes it challenging to provide data on companies as it becomes available. If the SEC does not align earnings releases with the 10-Q, it could pursue policies to require or incentivize companies to include complete statements of income, statements of cash flow, and balance sheets in earnings

[1] We proccess only a 10-Q for many companies because by the time we proccess their filings, we have a 10-Q and an earnings release.

releases, which would also be helpful. To improve efficiency and reduce wasted resources, the SEC could allow companies to incorporate by reference standardized information in an earnings release into a 10-Q at a later time.

The SEC should proceed cautiously, however, in moving toward such a system to ensure that doing so does not worsen an existing problem that data aggregators face as they try to serve investors: quickly sorting through unstructured earnings release data. In short, it is much easier to get useful information from the 10-Q, because it is filed in a standard, machine-readable format. Further, as filers start using iXBRL, we expect structured machine-readable data on the 10-Q to get even better, making it easier for us and other data aggregators to organize and contextualize financial data. The proposals to allow incorporating earnings release data by reference into 10-Q filings should require iXBRL tagging as part of the earnings release. Finally, when the information is incorporated by reference, it should be filed rather than furnished to maintain the same standards we have for the 10-Q today.

It is important to keep in mind that most firms do not issue an earnings release and merely file a 10-Q. The firms that do file an earnings release tend to be large ones that have the resources and sophistication to file both. Therefore, the Commission should not be overly focused on the challenges faced by filers and should focus on ensuring that investors have useful information that keeps markets efficient.

This Risks of Short-Termism Are Vastly Outweighed by the Benefits of Regular, Complete Disclosures and Are Unlikely to Be Ameliorated by Scaling Back 10-Q Requirements

In response to the questions the Commission asked about the potential benefits and harms associated with quarterly financial reporting, we do not support moves to restrict the amount of information currently available on a quarterly cadence. In our view, while regular disclosures may encourage a certain amount of short-term thinking, they also provide important information on a company's performance and financial health. Scaling back this information would hurt ordinary investors and impede analysts trying to understand a company's financial condition throughout the year. Although the commission has pointed to other jurisdictions' moves toward requiring less frequent reporting, our experience is that it is harder for analysts and investors to understand how a company is doing in those jurisdictions, leading to worse investment decisions.

Further, as comments on the Regulation S-K Concept Release noted, moving to a six-month reporting cycle would not necessarily lessen the incentives for companies to focus on short-term profits. This would be particularly true for companies that continue to voluntarily report earnings. At the same time, doing so could shake investors' confidence in equity markets, particularly if reducing the cadence of disclosures leads to more cases of fraud or cases of industry insiders trading on that information. Simply put, the cure would likely be a poor way to treat the disease and would likely create additional problems.

Thank you for the opportunity to share our view on the request for comment.

Sincerely,

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