

Aug. 24, 2018

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

Re: S7-08-18:

Ladies and Gentlemen:

Morningstar welcomes the opportunity to supplement our comment letter on the proposed "Regulation Best Interest" and the "Form CRS Relationship Summary."¹ We supplement Exhibits 8 and 9 of our initial comment letter to add several specifications. Exhibits 1 and 2 below show the results of the analysis conducted by Christoffersen, Evans, and Musto as shown in Table V, Columns 2 and 4, of their paper.² This analysis serves to demonstrate that excess loads exert a statistically significant effect on excess returns only when we do not control for lagged returns.

**Exhibit 1: Regression on Returns for 2010–17,
With Lagged Returns**

	Coefficient	p-value
Inflows	0.0001	0.546
Redemptions	-0.0002	0.574
Log(family size)	-0.0028	0.015
Log(total assets)	-0.0039	< 0.01
Category redemptions	0.0000	0.788
Excess loads	-0.0387	0.671
Lagged rank returns	0.1039	< 0.01

¹ Szapiro, A. 2018. "Comment Letter in Response to Regulation Best Interest." *Morningstar*, Aug. 7, 2018.

<https://www.morningstar.com/content/dam/marketing/shared/pdfs/policy/SECCommentLetter.pdf>

² Christoffersen, S.E.K., Evans, R., and Musto, D.K. 2013. "What do Consumers' Fund Flows Maximize? Evidence from Their Brokers' Incentives." *Journal of Finance*, Vol. 68, No. 1, P. 226.

**Exhibit 2: Regression on Returns for 2010–17,
Without Lagged Returns and With Broker Interaction Terms**

	Coefficient	p-value	
Inflows	0.0005	0.178	
Redemptions	-0.0009	0.139	
Log(family size)	-0.0033	0.032	
Log(total assets)	-0.0112	< 0.01	
Category redemptions	0.0000	0.567	
Excess loads * unaffiliated	-1.3938	< 0.01	
Excess loads * captive	-0.0386	0.757	
Captive	-0.0066	0.562	

Thank you for the opportunity to supplement our comment on proposed "Regulation Best Interest." Should you wish to discuss any of the analysis in this letter, please do not hesitate to contact any of us as indicated below:

Aron Szapiro at [REDACTED] or [REDACTED]
 Jake Spiegel at [REDACTED] or [REDACTED]
 Jasmin Sethi at [REDACTED] or [REDACTED]

Sincerely,

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