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Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Proposed Rule on Investment Company Reporting Modernization; Release No. 33-9776; File No. S7-08-15

Dear SEC Staff:

Morningstar, Inc. appreciates the opportunity to comment on the SEC's proposed rule on Investment Company Reporting Modernization. As the world's largest provider of mutual fund data and ratings, Morningstar has a long history of advocating for transparency in global financial markets. We believe that, with some modifications, the SEC's proposal would result in fund investors having comprehensive information about their fund holdings. We also recognize the SEC's vital role in monitoring potential systemic risks to the global financial system. While we have suggestions to amend the SEC's proposed rule, if the major principles remain as submitted we believe those changes would greatly enhance the SEC's ability to monitor emerging systemic risks.

We agree with the SEC that the increasing complexity of fund portfolios requires changes to existing reporting requirements. In the fixed-income arena in particular, fund portfolios often feature derivatives that are difficult for individual investors to understand. Although some funds do a good job of describing these synthetic exposures in "plain English," others do not. As a result, the owners of the funds often know less about their portfolio holdings than they should. Similarly, those with fiduciary responsibility for selecting or monitoring funds—a group that may include people ranging from investment consultants and financial advisors to fund directors—may not be able to perform their duties at an optimal level.

Even when investment companies do provide comprehensive, clear information about their portfolios, it may be difficult for investors to make comparisons between funds. For a number of portfolio metrics, including even core data points such as duration, fund managers often employ different calculation methodologies. As discussed in the appendix to this letter, we therefore support the SEC's efforts to collect granular position information, which will allow the SEC and third parties such as Morningstar to use consistent calculation methodologies across funds, thereby improving investors' ability to understand and compare portfolios. For the same reason, if the commission determines that there are calculated metrics required to be produced by investment companies, we support the SEC's efforts to standardize those calculation methods.

We also support the SEC's efforts to collect fund portfolios more frequently, but we ask that they be publicly disclosed on a monthly basis, rather than quarterly as the rule contemplates. As we have detailed in the appendix to this letter, more than half of U.S. mutual funds already voluntarily disclose their portfolios to Morningstar and other third parties on a monthly basis. Additionally, monthly portfolio disclosure—whether mandated or voluntary—has become the norm in many advanced financial markets around the world. For example, in the United Kingdom, Canada, and the Netherlands, among others, the vast majority of funds make public disclosure of their portfolios on a monthly basis. This behavior suggests that funds would not find it overly onerous to deliver monthly portfolios to the SEC. Moreover, we note that funds' Statements of Additional Information reflect that many of them provide very frequent portfolios—sometimes even daily—to investment consultants and other interested parties. If fund managers do not find it overly onerous to provide portfolios frequently to third parties, should not the actual owners of these assets also be entitled to receive timely updates on their fund portfolio holdings?

Morningstar also believes that modern electronic reporting should apply to all Registered Investment Companies equally. Investors and their advisors use open-end funds, exchange-traded funds, closed-end funds, and unit investment trusts as tools to build portfolios. Therefore, the format of portfolio holdings disclosure should be identical, even if the structure of the investment company dictates less-frequent portfolios.

We recognize some fund managers' legitimate concerns about investors "front-running" trades but believe that more-frequent disclosure, with an appropriate lag of 30 or 45 days, would address these concerns. It is rare for active fund managers to build a position in a security that amounts to more than a few weeks' trading volume, meaning that most funds could build or liquidate a meaningful position in fewer than 30 days. We further note that current SEC rules already allow portfolio managers to aggregate some smaller holdings as they are building or exiting positions. Moreover, as detailed in the appendix, we see no evidence that funds providing frequent portfolio disclosure tend to underperform other funds. In addition to the empirical evidence that we have provided, we point to the frequency of portfolio disclosure provided by some of the largest, most sophisticated fund managers in the world. Presently, funds representing 79% of assets publish portfolios monthly through Morningstar. Surely these large fund managers took potential front-running concerns into account before providing voluntary, monthly portfolio disclosures.

We believe that, in addition to providing better, timelier information to investors, monthly public disclosures of portfolios would assist the SEC in its efforts to monitor systemic risks to the financial system. There were many causes of the 2008 financial crisis, but one contributing factor was a lack of transparency among financial institutions. More-frequent portfolio disclosures will improve the counterparty information available to market participants. As a result, market participants could assist the SEC in identifying emerging risks—and they would likely direct assets away from counterparties perceived as excessively risky.

Morningstar also supports the SEC's proposal to improve disclosure related to securities lending. By collecting and making available additional information about counterparty risk and other important factors, the SEC will make it easier for investors and financial advisors to monitor portfolio risks. We also believe the enhancements to securities lending disclosure will assist the SEC in monitoring potential systemic financial risks. Securities lending is also an area in which frequent, comprehensive disclosure would allow market participants to assist the SEC in identifying risky practices and exposures. We further support the SEC's proposal to provide more-granular information about funds' fee income from securities lending. We believe that investors are entitled to know the revenue split between the fund manager, the lending agent, and the fund itself. Collecting and publishing this additional information will allow investors to learn whether they are being adequately compensated for securities lending, at least in comparison with other funds.

As detailed in the appendix attached to this letter, Morningstar has additional suggestions about the technical aspects of the SEC proposal. We encourage the use of an electronic reporting standard and identifiers that will allow the SEC and the public to easily parse and analyze reported data. However, we very much support the general direction the SEC has taken with its proposed rule. Simply put, improved disclosure will both benefit investors and allow regulators and market participants to identify potential systemic risks. We appreciate the SEC's consultative approach to this rulemaking process and look forward to working collaboratively with the SEC on this initiative.

Sincerely yours,

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Appendix I
Responses to specific inquiries

A. Form N-PORT

1. Who Must File Reports on Form N-PORT

It is our experience that all types of Registered Investment Companies are used as substitute and complementary investments by investors and their advisors. We believe that investors are most protected when the reporting formats and required information are consistent across substitute products. Therefore, we encourage the agency to replace position reporting for all RICs with a single format. A single format allows investors, advisors, and their software and service providers to create more-robust tools for comparison, as well as aggregation. A single format reduces the cost and increases the accuracy of software tools used by advisors and registered representatives to build portfolios and to select the most appropriate fund for the end investor.

The commission should include exchange-traded funds structured as unit investment trusts, closed-end investment companies, business development companies, and other RICs in the format proposed. The timeliness and frequency of submitting form N-PORT can and should be tailored to the features of the pool structure and the permitted investments therein.

2. Information Required on Form N-PORT

a. General Information and Instructions

Throughout the proposed filings, there are a number of definitions that we believe should be clarified by the commission. We believe that the amount of subjective information within holdings reporting should be minimized. Providing standardized, well-defined fields provides investors with a consistent basis from which they can evaluate investments. Additionally, incorporation of actively maintained industry defined terms into definitions would allow for ongoing enhancements to reporting concurrent with advancements within the asset-management industry.

The following fields generate requests for further clarity.

Field	Reference	Comment
Asset Type	C.4.a	As a research provider, we have noted that classifying instruments can be difficult due to judgments made by those evaluating the instruments. We find that there are different attributes associated with individual securities and derivatives that can lead to nuanced decisions based on which lens an analyst is using. Because we feel that it is important for filings of different RICs to be consistent with one another, we recommend the commission use a well-defined taxonomy for asset type, perhaps the CFI Code, ISO 10962, or some truncation of the six-character code. As an ISO standard, this classification is widely available and well defined without necessary intervention by the commission.

Field	Reference	Comment
Issuer Type	C.4.b	The choices within the issuer-type field at this time are limited, and it is unclear if the definitions are sufficient to generate consistency. We request that the commission remove this requirement, provide clear definitions, or align with ISO 10962.
Country (or risk or economic exposure)	C.5.i	The country of risk or economic exposure is generally based on subjective analysis. Differences in these determinations vis-a-vis the market can be critical to the investment decision of the RIC. Would the commission define country of risk as where the revenues are generated? Where the RIC expects revenues in the future? Where the costs are generated? The country associated with the currency of the revenue or costs? Or another view of country risk? The determination of economic risk is generally a proprietary qualitative assessment; we do not believe this is appropriate within instrument reporting.
Maturity Date	C.9.a	In our experience, even simple-sounding data points can be challenging to report consistently. For example, some firms measure the maturity of their bond portfolios based on the "effective" maturity date rather than a "final" or "stated" maturity date. Effective maturity involves looking at the embedded put and call provisions within a debenture and determining if a liquidity event is expected to occur. If so, the event date would then replace the "final" maturity date. Morningstar has found that this can have a great impact on portfolio average maturity and maturity breakdowns.
Delta	C.9.f	While it is general practice to use Black-Scholes-Merton closed-form models for equity option pricing and to calculate delta from the market price, complex structures, including call and put features on the underlying bond, make it impractical to use BSM as a pricing mechanism for convertible bonds. Is the commission recommending that the implied delta of convertible bonds be calculated through BSM? Or is the agency not going to provide specific guidance about acceptable methods to estimate delta?
Category of Derivative	C.11.a	The current list of derivative categories--forward, future, option, swaption, swap, warrant, other--leaves major derivatives under the definition of "other." The taxonomy provided is insufficient for credit default swaps. Within this framework, it is unclear if a CDS would be considered an option or a swap. Industry schema such as Financial products Markup Language have separate identification for CDS and options on CDS. An

Field	Reference	Comment
		examination of the FpML schema found here: http://www.fpml.org/coding-scheme/product-type-simple includes a much more robust set of categories without incorporation of all the underlying features.

b. Information Regarding Assets and Liabilities

Reporting all instruments used to generate investment returns and contributing risk to the portfolio should remain paramount. For the majority of funds using a controlled foreign corporation to minimize tax implications, a straightforward consolidation approach would be most accessible for investors to monitor the risk-taking activities of the fund.

In recent years, funds offering "liquid alternative" strategies have more frequently held swaps linked to the return of a commodity pool, or a private index. The instruments underlying these structures should be included as either consolidated holdings or referential information as outlined in item C.11.c.iii in Form N-PORT. These positions should be measured at the absolute value of the notional exposure, rather than the market value weight, when being considered for the Miscellaneous Securities classification permitted in the filing. Additionally, if there are costs associated with the management of the CFC or expenses embedded in the return being received (in the case of swaps on the return of commodity pools), these expenses should footnoted in the financial statements and reported either in calculations of total operating expenses or as acquired fund expenses in other filings.

c. Portfolio Level Risk Metrics

Morningstar supports the commission's approach requiring funds with more than 20% gross notional exposure to debt securities and related derivatives to provide DV01 and SD01 risk analytics. There are few funds that breach 20% without a specific fixed-income allocation. Current Morningstar data estimates fewer than 80 portfolios out of more than 5,000 equity investment companies presently have more than 20% notional exposure in investments that would be subject to this reporting. Alternatively, the commission could also exempt funds with greater than 20% allocations when these allocations are limited to a narrow set of instruments including money market funds, money market instruments, and deposits.

As it relates to exposures to different currencies, if the reporting is to remain as proposed at the portfolio level, we support a reasonable threshold of 5% gross notional as *de minimis* amount mentioned in the discussion question.

Morningstar supports greater distribution of clearly defined risk metrics. DV01 and SD01 are likely the measures that will be least subject to differences based on assumptions within risk models employed by fund companies. Extending these values beyond the portfolio level to the individual instruments will reveal if there are differences in how individual funds interpret the risk of positions. The commission is proposing calculation of these measures through a bottom-up approach. During our analysis of managed portfolios, we observe that fund companies frequently use models incorporating cross-correlations, forward assumptions, and other subjective tools when evaluating overall portfolio risk. The use of a bottom-up approach and the limited movement of 1 basis point are likely to provide standardization. It is inevitable that there will be differences in fund company estimates based on the features of individual risk models used. Reporting of the assumptions used seems impractical and difficult to standardize. Rather than collecting model assumptions or additional standardization of the calculations, we believe providing additional details within position information, specifically for bespoke derivatives and syndicated loans, will enable investors and service providers to independently calculate risk measures based on a model of the investor's choice.

Further, the use of DV01 is likely the risk measure least likely to be subject to model risk as compared with DV25 or DV50. We do note that DV01 and SD01 are typically used as daily risk measures. The commission is proposing to receive these measures with a 30-day lag, where a DV25 or DV50 may be more appropriate. But because of the subjectivity of the models typically employed to calculate these statistics on instruments with prepayment, call, or put features, our bias is for more information in the hands of investors so they can independently analyze portfolios.

d. Securities Lending

We support the commission's approach to evaluate counterparty risk of securities lending in the aggregate rather than a loan-by-loan or security-by-security basis. The commission's no-action letters and exemptive orders have provided sufficient investor protection. However, large nominal amounts of securities lending may be misleading for unsophisticated investors, so we recommend that the aggregate value of the securities lent be accompanied by aggregate collateral pledged. Presenting both amounts on loan and collateral will provide net counterparty exposure, which is commonly negative for overcollateralized positions.

For RICs using multiple lending agents, we prefer the commission's current proposal of reporting information for all counterparties. In absence of a complete listing, investors are best served by rules setting a *de minimis* exposure based on a determination of materiality rather than an arbitrary number of positions.

e. Return Information

Performance return data is readily available with high quality on many investment provider websites and from market data providers. Morningstar, as an example, typically receives daily performance data for 99.6% of open-ended investment companies by 9 p.m. EST. Morningstar also conducts daily and monthly quality checks on its performance data, ultimately ensuring that any anomalies are fully vetted and resolved by the third business day after month end. Morningstar's data, as well as most of the industry's data, is made available on investor-facing websites in approximately the same timeframes. The quarterly release of monthly performance on Form N-PORT or the annual release of monthly performance on Form N-CEN would result in the release of information that has already been available to the public.

Morningstar believes the presentation of total returns is more appropriate than the presentation of gross returns to investors as it is consistent with the most common presentation of return data in the industry. The presentation of gross returns may be more confusing to an investor because it does not represent their actual performance.

f. Flow Information

Fund flow information, specifically the reinvestment rates currently available semiannually on Form N-SAR, is used to refine calculated share-class level cash flows[1]. This information, coupled with total net asset and distribution information, is provided directly by investment providers to market data providers such as Morningstar, allowing for monthly fund flow analysis[2]. In order to allow individuals to conduct this type of

[1] https://corporate.morningstar.com/US/documents/Direct/MorningstarCashFlowMethodology.pdf
[2] http://corporate.morningstar.com/US/documents/Commentary/AssetFlowsJune2015.pdf

analysis on the fund industry using timely information, we believe that quarterly disclosure of this information to the public on Form N-PORT is preferable to annual disclosure on Form N-CEN.

Morningstar currently marries fund-level disclosures from Form N-SAR with share-level total net asset data reported to Morningstar by fund companies. With this combination of fund and class-level data, Morningstar can analyze trends in distribution or the effect of fees on flows. If assessing distribution trends is valuable to the commission, we encourage a dataset be used to classify the many types of share classes in the industry, as this would allow for easy analysis. Otherwise, an investor or the commission would have to create a rules-based approach using fee components.

Omnibus accounts have increased in the share of assets held in investment companies since the introduction of Form N-SAR. This proposal offers an opportunity to gain more insight into these accounts while clarifying a fund's actual flows. The requested information should be available through National Securities Clearing Corporation trade files, and omnibus accounting service providers should be able to furnish flow information to investment companies by request. In order to better monitor omnibus account activity within a fund, we recommend the distinct disclosure of flow information for omnibus accounts. When setting the disclosure requirements for omnibus accounts, one area to be mindful of is the treatment of flow information when Level 3 accounts are converted to an omnibus account. While this could be considered an exchange, for analytical purposes it may be worth considering the addition of a field to disclose assets converted to omnibus accounts during the reporting period.

g. Schedule of Portfolio Investments

i. Information for All Investments

The use of an identifier is essential to execute automated matching of positions within portfolios. We have found that most funds have the ability to redistribute the CUSIPs and/or ISINs of positions within their portfolios without further licensing. The concept of the Financial Instrumental Global Identifier is compelling. The number of market participants that have adopted the FIGI is growing. Morningstar would collect and adopt FIGI within the various identifiers that our system currently licenses if the commission requires inclusion of this identifier. As FIGI is an open identifier, RICs would not need a license to redistribute this value, but systems would need to be adapted to collect and store this value, potentially adding development costs.

Generally, Morningstar supports consistent adoption of monitored and maintained identifiers. The recent letter dated June 11, 2015, to the commission from the International Swaps and Derivatives Association, Securities Industry and Financial Markets Association, and other associations[3] describes the value of data harmonization well. The Unique Product Identifiers for Over-the-Counter derivatives if mandated, or widely adopted, would aid in validation of instrument information, and ease independent analysis.

The proposed items in Form N-PORT Item C.2.a provide for a balance and a type of balance to be reported. The type of balance choices appear to be incomplete. Are swap and foreign exchange forward notional to be construed as principal? The addition of "Notional" for OTC contracts that do not exchange or deliver principal would clarify this field. For Item C.2.b currency, will this be required to follow ISO 4217?

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3 http://www2.isda.org/attachment/NzY1OA==/Joint%20Trade%20Association%20Data%20Harmonization%20letter.pdf

Item C.2.d, the percentage value compared with net assets, introduces a complicated issue. The fair value as a percentage of net assets is an important perspective when evaluating portfolios. But, as recognized in Item B.3, exposure is frequently a more important measure of what impact a position has on a portfolio. We note that exposure as a percentage of net assets is not provided either in section C.2 or C.11. It is our opinion that inclusion of exposure as a percentage of net assets within C.11 is necessary. This would require commission guidance regarding the aggregation or segregation of multiple reference positions within items C.11.e, C.11.f, and C.11.g in the proposed N-PORT form. Separately, the payoff profile information appears sufficient for a reasonably knowledgeable investor to use.

The information in items C.6, C.7, and C.8 would provide investors much needed information into the liquidity, restriction, and valuation of positions within RIC portfolios.

The Asset Categories within items C.4.a and C.4.b are limited and have global connotations that can differ from U.S. connotations. We concur with the introduction of ISO 10962:2015[4]:

Many market participants are using similar terminology for instruments having significantly different features. The problem is compounded when market participants look beyond their own national markets. They encounter the same words to describe instruments in another country, which have significantly different features. Where the terminology is in a different language, the market participant encounters the problem of the same words being applied to different instruments along with the problems of translation, which also can be misleading.

In addition, the customs and practices of local markets vary considerably in the manner in which they structure financial instruments, leaving foreign participants confused and perplexed. On careful analysis, it is often found that the characteristics and features of these instruments are similar to a domestic instrument. However, most market participants do not have the time and resources to do this analysis.

For example, in many markets including Germany, Brazil, and Korea, "equity-preferred" has a broadly different meaning from in the United States. While preferred shares issued in the U.S. are generally redeemable at a fixed value in the event of a change of control, equity-preferred is nonvoting common equity, fully participating in the upside upon a change of control, in these other markets. The preference refers to a higher dividend required in exchange for giving up voting rights (or another shareholder right). We advocate the use of a clearly defined independent standard in determining asset type. Recently revised ISO Standard 10962:2015 provides a taxonomy that is easily applied to many different financial instruments. The six-character code could certainly be truncated to generate larger groups of instrument types within portfolio reporting. The application of an independent standard removes objectivity from the classification of instruments and applies a consistent taxonomy that is periodically reviewed and updated by the International Organization for Standardization.

The current proposal recommends that these classifications be reported as a separate field in a structured format at the instrument level within N-PORT. We support this proposal. The proposed changes to Regulation S-X would organize the financial statement reporting by asset type. Given these changes, we believe it is unnecessary to provide additional aggregation within N-PORT, when this information exists

[4] ISO 10962:2015 Securities and related Financial Instruments -- Classification of financial instruments (CFI code)

within the subtotals of the formal statement of investments. Additionally, the proposed electronic format of N-PORT allows for easy aggregation, rendering most aggregations within reporting as unnecessary.

Morningstar supports the current proposal for inclusion of accounting valuation levels for each position. This information will allow investors, as well as plan and fund fiduciaries, to more accurately evaluate liquidity and pricing risks with funds. A plan sponsor acting as a fiduciary may have completely different views on two portfolios with 25% level 3 assets if one was composed of no position exceeding 10 basis points of total assets versus another fund with concentrations of as much as 5% in a single level 3 instrument.

The current proposal includes sufficient information for an investor to evaluate liquidity and pricing risks of a fund. We believe that the Valuation and Pricing agent disclosures included in proposed N-CEN on an annual basis are sufficient additional information to conduct due diligence on pricing and valuation issues.

The country of an investment has multiple dimensions: the country where the issuer is organized; the country where a security is registered or listed; the main location of revenues; the country of operations; or the country of headquarters. The country with the greatest concentration of risk and economic exposure, *country of risk* hereafter, is subjective, and its evaluation is a factor that can differentiate investment managers. The information to identify the country of risk is not standardized within financial statements. Its disclosure is determined by the corporation's accounting department and auditor; in many cases, it is disclosed by self-determined region. It is highly unlikely that this information would be received in a consistent manner without very specific instructions from the commission.

Determination of the country of risk is frequently considered proprietary information and is licensed from third parties rather than easily collected. The additional public disclosure of this country information may be subject to licensing costs for firms that do not independently analyze this within their investment process. On the other hand, the country where an issuer is organized or an issuance is listed is objective information that is easily validated. The final rules for determination of which measure, or measures, of an investment's country should be exactly defined and clearly specified by the commission. Therefore, we have a bias toward objective characteristics such as country of issuance rather than the subjective country of risk.

The reporting of all required fields, or assignment of NA or NULL for unknown or fields that do not apply, is requested throughout to ease data-validation efforts. While it is likely that an identifier exists for many positions that may allow researchers to supplement the gaps, typical investors would be unnecessarily confused when comparing portfolios with only a few positions identified with a specific country but most assigned NA.

ii. Debt Securities

The information for debt securities, while thorough, doesn't address a number of features that can have a large impact on the value and risk sensitivities of an instrument. In addition to the guarantor information discussed in the question, many debentures also have call or put provisions, prepayment or inflation factors on principal, and/or sinking funds. While many of these characteristics exist within bonds, it is unclear if this information is unified into portfolio reporting or risk systems. As discussed above, it is unclear if the reported maturity is the final maturity or the next date associated with an expected call or put event. There is a wide variety of additional data points for debt securities that can be used to analyze portfolios, but we defer to industry on the additional burden and costs that inclusion of these values would impose. If the primary purpose is for the commission to monitor systematic risk, the most valuable information would be that of a secondary obligor or guarantor. The variety of other bond features may make additional information unwieldly.

For convertible securities, supplemental call and put provisions can have a great impact on the estimate of delta through a lattice approach vis-a-vis a Black-Scholes-Merton closed form approximation. The commission could dictate a specific approach using specifically defined inputs in order to generate comparable delta estimation for convertible securities in portfolios of different RICs. Alternatively, the commission could require additional raw terms and conditions to be reported to facilitate calculation. Most of the objective terms and conditions are available to investors through reading the securities' filings, and these are generally purchased in a data package by fund companies and service providers. Therefore, effective inclusion of identifiers, valuations, and accrued interest amounts generally provides sufficient information for information providers to calculate delta-adjusted exposure in a consistent manner for all funds.

iii. Repurchase and Reverse Repurchase Agreements

The disclosure requirements around repurchase and reverse repurchase agreements are sufficient for an investor or fiduciary to conduct their due diligence. In addition to aligning with Form-NMP and the Federal Reserve, fund companies operating globally and offering managed products within Europe are supplying this information to investors regulated by the European Insurance and Occupational Pensions Authority.

iv. Derivatives

There are certain fields that relate to detailed calculation of cash flows for swaps that are not presently available in the proposal for N-PORT. For OTC Swaps, inflation index base values and lags associated with principal resets are not in the proposal. Neither are accrual methods and payment settlement (setting) types. Nor does it appear that caps and floors embedded in swaps are included in the proposed form. These bespoke characteristics are likely to limit the usefulness of instrument or portfolio level DV01 in the event of an unexpected interest-rate shock.

In absence of the commission adopting ISO 10962, the ISDA taxonomy, or another independent standard for groups of derivatives, it appears that there is little differentiation between credit derivatives from options and swaps. Credit products tend to behave differently from interest-rate and cross-currency swaps. Some credit derivatives have tranches; the attachment and detachment percentage would enable analysis of these positions within RIC portfolios.

Separately, we note that ISO 6166 Securities, International securities identification numbering system, or ISIN, only includes securities. This excludes listed and OTC derivatives as well as syndicated loans from identifier systems. As discussed within the proposal, there are efforts to extend numbering to derivatives within both the FIGI and the UPI. With the requirement for additional central clearing of most swaps in G-20 countries, it is expected that additional identifiers will emerge. We encourage the industry, commission, central counterparties, and other market participants to jointly adopt a robust identifier code to communicate holdings.

In our experience, most RICs using options trade liquid exchange-traded instruments, the terms of which are widely available. The adoption and inclusion of an identifier would enable investors to identify further nuances.

It is our opinion that alignment of field definitions, identifiers, and other information that is presently reported by participants to Security Based Swap Repositories and the CFTC regulated equivalents would be helpful. Reporting of this information would allow the commission to engage in data validation between the repository information and the N-PORT filings within the portfolio. There are similar reporting requirements under the European Union's European Market Infrastructure Regulation. Standardization of data fields between reports and global reporting regulations should ease the burden of advisors reporting to multiple regulators. A technological solution connecting various regulatory reporting should not harm investors, provided N-PORT fields contain information to match reference holdings that generate cash flow or capital appreciation on derivatives subject to this reporting.

Fund shareholders should be able to understand the exposures of the funds they own. Management should not be able to use proprietary indexes as a shield from transparency. We support the commission's current proposal of a threshold of reporting of underlying baskets when the derivative notional is greater than 1% of the fund's NAV. Arbitrary limits on positions that should be disclosed for portfolios or reference indexes can mask the risk of an instrument. For example, a widely diversified custom index with 250 stocks may have very few positions with more than 1% exposure, and posting of only the top 50 may represent a fraction equal to less than half of the index's exposure. A sector analysis could fail to reveal high concentrations in risk that are aggregates of positions that do not make the top 50.

From a delivery standpoint, technological review is simpler, with reporting of all holdings rather than the customization file. Investors, analysts, and the commission would have to build more-complex systems to evaluate portfolios.

Academic research recommends the use of a variety of models to calculate delta depending on the instrument: equity option, swaption, foreign exchange option, interest-rate options, and others. The proposal could be modified to define a specific approach with specific derivations of inputs for the most common types of derivatives. Comparability is maximized if major approaches are dictated similarly to total return calculations.

v. Securities on Loan and Cash Collateral Reinvestment

The current proposal for the disclosure of securities lending at the position level is supported. We support consistency within "Asset Type" fields within the entire N-PORT schema. As such, we believe the position reporting for repurchase agreements should be consistent with instrument type as well as collateral type.

h. Miscellaneous Securities

The current regime for miscellaneous securities has been effective and not abused. There is no impetus to restrict the use of this temporary shield. That being said, it is necessary for all miscellaneous securities to be measured at notional, or delta-adjusted, exposure rather than the book value. It is unclear if the current proposal would require instruments included in miscellaneous securities to be measured at fair value or estimated exposure.

i. Explanatory Notes

The proposed format for explanatory notes is supported and should help clarify initial difficulties with reporting. The notes should be made public in order to help investors and fiduciaries perform due diligence.

j. Exhibits

The proposed attachment of quarterly holdings schedules would aid in historic comparability for investors using EDGAR. While structured electronic reporting is preferred by the commission and institutional investors, the format proposed in the schedules provides an accessible format for individual investors.

k. General Request for Comments Regarding the Information on Form N-PORT

In general, the information proposed in N-PORT supplies fiduciaries, investors, and the commission with most of the information to evaluate risks of RICs. There are gaps in data that could present challenges, but we cannot provide an estimate of the costs. Bond factors representing inflation adjustments, prepayments, or other scheduled adjustments to notional for bespoke derivatives are not available. There is also no collection for caps and floors on variable interest-rate instruments.

The interest-rate measures within the portfolio are notably very short term in nature. While other measures of risk introduce inconsistency across models, the commission could require additional risk statistics. For example, in Europe, the European Securities and Markets Authority includes leverage tests and provides firms with two approaches[5] to measure fund leverage and limit risks. In one approach, portfolios net hedging transactions to calculate leverage. In the second approach, a firm can employ a Value-at-Risk approach with calculation principles outlined. While the VaR approach introduces model risk and comparability issues across funds, this type of measure provides statistical guidance to investors relative to the maximum expected losses in a period. This approach differs from the DV01 approach, as funds without derivatives are exempt from advanced risk measure calculation. VaR is a more applicable risk measure for a one-month period than DV01 or SD01.

It would be surprising to Morningstar if any firms using derivatives did not have the requested information or our suggested information within their risk management systems. The information transmitted in Financial Information eXchange or FpML, as well as required for use by third-party risk software services, is more comprehensive than the commission is proposing. In our opinion, any firm employing a material amount of derivatives should have this information. A thorough documentation of positions and sophisticated measures should be available, even if solely for the fiduciary supervision of the fund by its board of directors.

3. Reporting of Information on Form N-PORT

We write in support of the commission requiring reporting in a structured format. Extensible Business Reporting Language has had very limited success, and certain aspects of the standard are too lenient for regular data validation. A number of XML schema are aligned with the International Standards Organization's standard 20022 (ISO 20022). A standards coordination group has been formed including: FIX, FpML, SWIFT, XBRL, ISITC, and FISD. We believe a single standard XML framework, as either an extension of current schema or an alignment with the emerging interoperability of the ISO standard, could ease reporting burdens. We are presently indifferent to which structured format the commission adopts, but we encourage the commission to work with existing standard-setting groups and industry to adopt a well-defined XML schema that allows for data validation. The interoperability between N-PORT, Form PF, and N-MFP data collection is also a goal we encourage in the final XML schema.

Morningstar believes the ability to cross-check information reported on other commission electronic-filing systems would be an enhancement to data validation and potentially useful for monitoring. Individual investors would be best served if any new filings are distributed through a single system. Whether or not EDGAR is the filing portal, the redistribution to investors can be technologically consolidated to EDGAR or a replacement portal.

[5] CESR/10-788

Morningstar currently collects portfolio information including derivatives quite rapidly. Of ETFs and ETFs structured as UITs, 69% report portfolios with a lag of less than one business week. Similarly, 48% of open-end funds submit holdings within one month, and that jumps to 81% after 45 days.

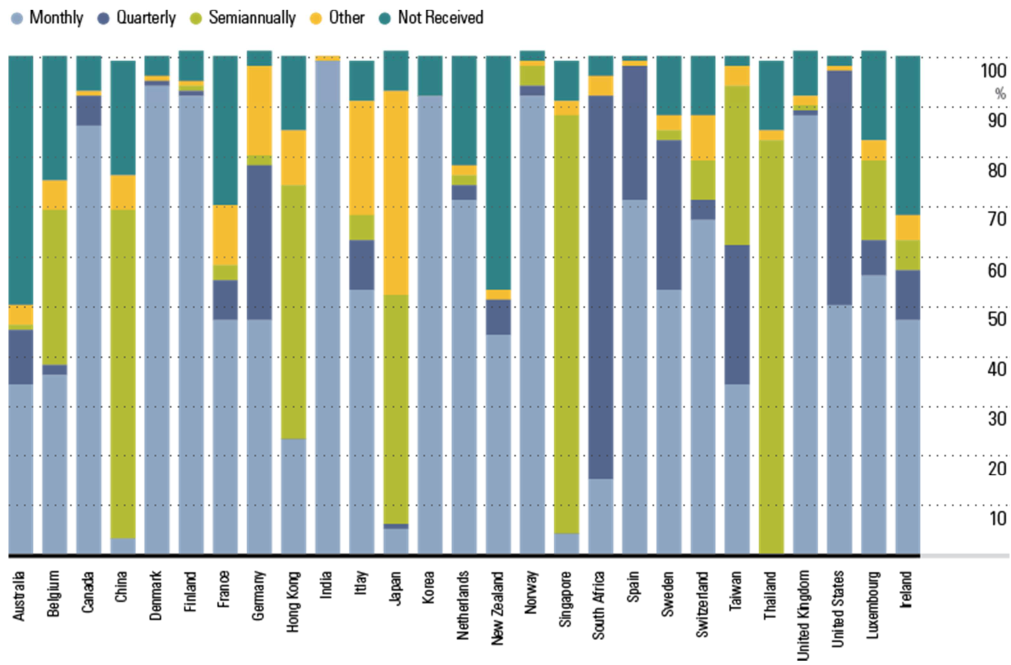
Within a sampling of fund Statements of Additional Information, we found every single one permits selective disclosure of holdings. About half the time, fund SAIs include a schedule of the entities receiving holdings separately from SEC filings. These include typical portfolio lag times, which are generally one month or less. From our review of SAI filings, it is apparent that most if not all RICs provide this information quickly to preferred consultants and institutional investors. In many cases, the recipients of the information are bound by agreements not to trade on this information, but some SAIs indicate that separate account holders have position information without that limitation.

4. Public Disclosure of Information Reported on Form N-PORT

More than half of all funds disclose information to the public on a monthly basis today. In the United States, Morningstar publishes portfolios within our investment products approximately 48 hours after they are received. Presently, funds report holdings to Morningstar approximately 35 days after the end of the reporting period.

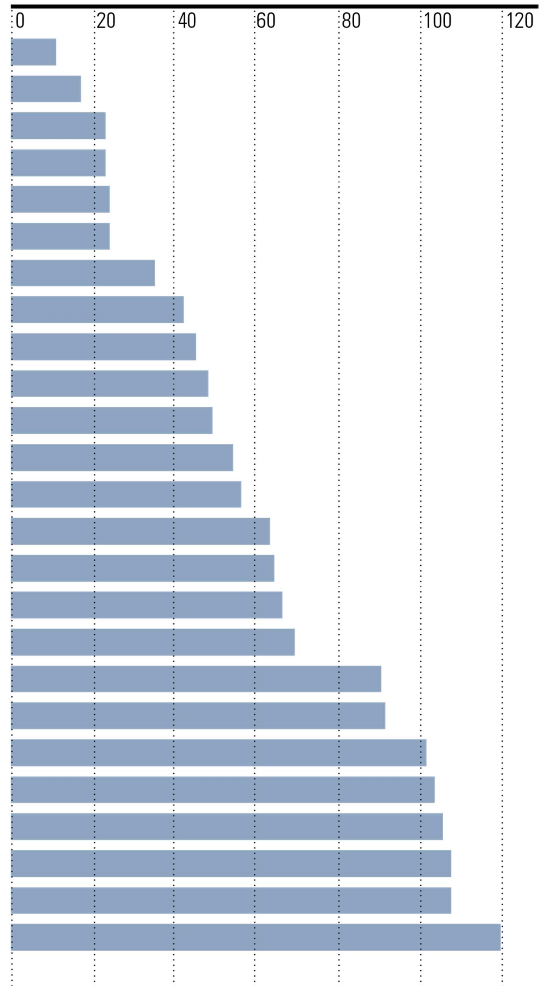
Morningstar recently published a biennial research report discussing features of the mutual fund markets around the globe.[6] Within this report, we reviewed the active collection of portfolios in more than 20 countries around the world. Despite less-frequent required disclosure, managers are publishing full holdings within Morningstar products on a monthly basis most of the time. In seven countries, more than 80% of funds send us monthly holdings, and 13 of the 27 countries reviewed have more than 50% of open-end portfolios being published monthly. Certainly, more managers would limit disclosure to regulatory minimums if copy-cat behavior was considered a major concern.

[6] Alpert, Benjamin N., Paul Justice, Anthony Serhan. 2015 Global Investor Experience Report. Morningstar. June 9, 2015.



We identify the frequency of holdings publication, which we believe indicates the fund's concerns about copy-cat behavior. The study identifies the typical lag time for publication of portfolios within Morningstar products.

Countries	Average Lag (Days)
India	11
Norway	17
Denmark	23
Finland	23
Taiwan	24
Sweden	24
United States	35
New Zealand	42
Canada	45
South Africa	48
Spain	49
Netherlands	54
Australia	56
Germany	63
Italy	64
Korea	66
United Kingdom	69
France	90
China	91
Thailand	101
Japan	103
Switzerland	105
Belgium	107
Singapore	107
Hong Kong	119



There are nine countries where fund companies publish portfolios through Morningstar in 45 days or fewer. We believe that indicates that fears of predatory trading are overblown. High-frequency trading is virulent and is already stepping ahead of many orders, but we do not see how portfolio information available 30 or 45 days after the end of a period will add to further front-running.

As for copy-cat behavior, we find the academic research dubious. Since the advent of quarterly reporting, there have been large increases in the amount of data available for investors to data-mine. Performance of active managers indicates no pattern of outperformance by quarterly reporting RICs. In fact, over 11 years average annual returns of funds reporting monthly are greater than funds in the same category 51% of the time (611 of 1,200 observations), indicating that more-frequent holdings has not led to a pattern of diminished returns. A sample of this data shows that no pattern exists even in esoteric categories.

	Number of Share Classes	Average of Total Ret Annlzd 10 Yr (7/31 End)	Average of Annual Ret 2004	Average of Annual Ret 2005	Average of Annual Ret 2006	Average of Annual Ret 2007	Average of Annual Ret 2008	Average of Annual Ret 2009	Average of Annual Ret 2010	Average of Annual Ret 2011	Average of Annual Ret 2012	Average of Annual Ret 2013	Average of Annual Ret 2014
Diversified Emerging Mkts													
Monthly	453	▼ 5.87	▲ 25.91	▲ 33.14	▼ 32.17	▲ 37.06	▼ (54.13)	▲ 73.38	▲ 20.19	▼ (20.05)	▲ 18.79	▲ 0.70	▼ (3.40)
Quarterly	409	▲ 6.47	▼ 22.58	▼ 30.89	▲ 32.78	▼ 36.99	▲ (53.01)	▼ 72.39	▼ 18.57	▲ (19.09)	▼ 18.54	▼ 0.16	▲ (3.03)
Foreign Small/Mid Value													
Monthly	19	▲ 7.04	▲ 34.80	▲ 23.23	▲ 28.11	▼ 7.49	▲ (46.30)	▲ 61.59	▼ 20.13	▼ (18.38)	▲ 22.53	▼ 24.18	▲ (4.61)
Quarterly	48	▼ 5.60	▼ 24.81	▼ 17.83	▼ 25.96	▲ 8.06	▼ (47.85)	▼ 52.55	▲ 22.01	▲ (17.49)	▼ 22.12	▲ 25.42	▼ (7.41)
High Yield Bond													
Monthly	473	▼ 6.40	▲ 10.63	▲ 2.94	▲ 10.76	▲ 1.99	▼ (26.52)	▲ 48.99	▲ 14.94	▼ 2.62	▼ 14.93	▼ 7.00	▼ 1.30
Quarterly	476	▲ 6.44	▼ 10.27	▼ 2.84	▼ 10.14	▼ 1.96	▲ (24.56)	▼ 45.73	▼ 13.99	▲ 3.36	▲ 15.00	▲ 7.13	▲ 1.31
Intermediate Term Bond													
Monthly	680	▼ 4.34	▲ 4.31	▲ 1.91	▼ 4.23	▼ 5.28	▼ (4.13)	▲ 14.21	▲ 8.00	▲ 6.28	▲ 6.85	▼ (1.34)	▼ 5.24
Quarterly	614	▲ 4.41	▼ 4.27	▼ 1.89	▲ 4.28	▲ 5.47	▲ (3.63)	▼ 13.83	▼ 7.75	▼ 5.92	▼ 6.85	▲ (1.29)	▲ 5.28
Large Blend													
Monthly	936	▲ 6.90	▼ 10.42	▲ 6.78	▼ 14.20	▲ 7.63	▼ (37.68)	▲ 28.92	▲ 14.30	▼ (1.21)	▲ 15.21	▼ 31.91	▲ 10.80
Quarterly	751	▼ 6.85	▲ 11.32	▼ 6.07	▲ 15.24	▼ 5.27	▲ (37.09)	▼ 28.86	▼ 14.19	▲ (0.59)	▼ 15.04	▲ 32.04	▼ 10.73
Long/Short Equity													
Monthly	214	▲ 4.86	▼ 9.36	▼ 8.27	▼ 9.26	▲ 9.20	▼ (22.60)	▼ 16.11	▼ 7.06	▼ (4.70)	▲ 9.13	▲ 16.64	▲ 3.18
Quarterly	216	▼ 4.80	▲ 12.51	▲ 10.68	▲ 11.05	▼ 2.95	▲ (17.67)	▲ 18.18	▲ 9.21	▲ 1.11	▼ 5.33	▼ 16.28	▼ 2.19
Mid Cap Growth													
Monthly	516	▼ 8.08	▼ 14.51	▼ 10.51	▼ 9.52	▼ 15.51	▼ (43.17)	▲ 39.99	▼ 25.33	▼ (3.71)	▼ 13.76	▼ 35.02	▼ 7.02
Quarterly	428	▲ 8.66	▲ 15.30	▲ 11.17	▲ 9.98	▲ 16.41	▲ (41.52)	▼ 39.37	▲ 25.36	▲ (3.53)	▲ 14.72	▲ 35.46	▲ 7.14
Muni National Interm													
Monthly	210	▼ 3.60	▲ 3.34	▲ 2.28	▲ 3.93	▼ 2.30	▼ (4.74)	▲ 13.23	▲ 2.35	▼ 9.16	▲ 6.20	▼ (2.64)	▲ 7.18
Quarterly	145	▲ 3.93	▼ 3.03	▼ 2.00	▼ 3.85	▲ 2.58	▲ (2.82)	▼ 12.26	▼ 2.28	▲ 9.59	▼ 6.17	▲ (2.40)	▼ 7.17
Small Growth													
Monthly	467	▼ 8.23	▼ 13.05	▲ 8.14	▼ 11.75	▲ 8.87	▼ (40.98)	▲ 37.05	▼ 28.27	▼ (3.28)	▼ 13.70	▲ 41.77	▼ 1.46
Quarterly	438	▲ 8.44	▲ 13.33	▼ 6.79	▲ 12.22	▼ 8.02	▲ (39.68)	▼ 36.22	▲ 28.36	▲ (2.40)	▲ 13.98	▼ 41.16	▲ 3.58
Technology													
Monthly	157	▼ 8.65	▼ 4.45	▼ 6.12	▲ 8.62	▼ 16.04	▼ (46.36)	▲ 64.89	▲ 21.08	▼ (8.15)	▼ 11.23	▼ 34.44	▲ 14.83
Quarterly	83	▲ 9.21	▲ 7.94	▲ 6.90	▼ 8.28	▲ 18.20	▲ (42.06)	▼ 56.74	▼ 18.81	▲ (7.44)	▲ 15.63	▲ 35.43	▼ 8.22

Source: Morningstar

Over the past few years, the EDHEC-Risk Institute and others have expanded on factor analysis that supplanted CAPM research. Fama and French, Carhart, Research Affiliates, and others have identified factors from widely available price and financial-sheet information to create robust tools to create strategic, or smart, beta. The type of copy-cat behaviors that the commission envisions have largely been exploited by the data-mining of academia and the industry. Within the tools offered by the ERI, institutional investors can purchase data sets with large volumes of instrument-level data that can already effectively identify the characteristics typically used for copy-cat portfolios. We believe that the risks of monthly disclosure on a one- to two-month delay are overblown.

Today, 52% of open-end funds, closed-end funds, ETFs, and ETFs structured as UITS are sending Morningstar portfolios with a delay of fewer than 31 calendar days. Only 20% of these funds do not send portfolios within 45 days of the end of the reporting period. Approximately 6,500 of 12,000 portfolios are reporting monthly, of these approximately 6,200 are submitting portfolios for publication within 45 calendar days, and an additional 1,800 funds with quarterly reporting are submitting with the same delay. This evidence suggests that the industry is not concerned with front-running or free-riding based on a longer delay.

When we examined the reporting practices, we found a few patterns. ETFs and UITs structured as ETFs are more likely to submit monthly portfolios. While approximately 55% of funds use an unrelated service provider to send holdings to Morningstar, fully 85% of firms with less than $1 billion of assets in RICs are using third-party providers. More than 60% of funds sponsored by these small advisors are presently on a quarterly reporting schedule. On the other hand, 56% of funds with more than $1 billion send monthly portfolios, approximately split equally between self or affiliated reporting and independent service provider reporting. The evidence of the largest, most-sophisticated managers reporting publishing holdings is clear. Managers do not believe that additional reporting detracts from returns.

Investment firms are using holdings information to justify active management in their pitches to advisors and consultants. Frequently, these presentations include a variety of attribution and contribution analysis and information such as active share. There are different ways that firms can produce this data. Therefore, as this information is filtered down to investors, it is important that monthly holdings data be provided such that investors can use software and third-party research to generate standardized information across portfolios to compare with the fund marketing. This type of standard information is critical so that fiduciaries can perform their required due diligence either at the fund or retirement plan level.

When reviewed as quartiles of firm sizes, the data indicates that, as firms grow, so does monthly reporting. This is true whether looking at active strategies or all strategies, although index funds do not show a similar pattern. Index funds report on a daily or monthly basis over 75% of the time, but approximately 50% of active funds report monthly.

It is in the best interests of investors that monthly N-PORT filings be released to the public with a maximum prescribed delay. If the commission is able to collect this information more rapidly than monthly, we advocate that the forms be released in a structured format no more than 45 days after the period-end. Nearly 80% of funds publish holdings through Morningstar on this schedule today.

B. Rescission of Form N-Q and Amendments to Certification Requirements of Form N-CSR

The proposed changes provide investors sufficient information.

C. Amendments to Regulation S-X

There is a balance in the volume of information in a single presentation. Given the format differences between XML and financial statements, we believe it is appropriate to limit the fields on Regulation S-X statements. Currently, Article 12 holdings disclosures are organized by the risks that management feels are relevant for investors. (for example, foreign-currency exposure for international-bond funds, industry group for domestic-stock funds, and so on). These presentations accompanied by the changes to rule 12-13 through 12-13D as proposed are likely to be sufficient for the investors who rely on financial-statement disclosure rather than form N-PORT.

As mentioned in our comments relating to Form N-PORT, credit default swaps are unique enough instruments to deserve separate treatment. While interest rate, total return, and currency swaps pay (lose) the return fraction of a payment stream, credit default swaps insure the entire notional based on a small leveraged premium. We observe that credit default swap protection written, and protection purchased are presented as schedules similar to written and purchases options within financial statements.

The proposal to report counterparties for non-exchange-traded instruments is reasonable. Exposures to counterparties should be presented net of collateral received or margin posted.

For open option contracts, written notional amount is relevant as the end obligation if the option is exercised. This metric explains the future obligation. Similarly an analysis of notional shares for options quickly associates covered call writing with the long-underlying. We feel that specific instructions for grouping, and subtotaling, options are an unnecessary additional step. If any subtotals are required; we recommend grouping by underlying investment.

As discussed above, we support the full disclosure of reference portfolios for derivatives, whether options or other derivative contracts. Index providers are earning revenues from the licensing fees embedded in the derivative cost that is born by the fund and therefore its shareholders. The inclusion of holdings when derivative notional is more than 1% is an appropriate threshold.

The notional of a futures contract is a key characteristic that is used to evaluate the impact on the portfolio. This disclosure is relevant and informative for investors and for fiduciaries acting on the behalf of shareholders or other investors. It is not necessary to require subtotals of futures contracts; if subtotaling is specified we would support it to be organized by underlying investment description.

The information required by regulation S-X section 210.12-13B on open forward-currency contracts is appropriate and supported. Contrary to our opinion for other derivatives, we believe it is in the interest of investors for foreign-currency forwards to be grouped and subtotaled by currencies purchased and sold. A grouping or subtotal of this manner more intuitively presents the cumulative effect of currency forwards.

Regarding proposed rule 12-13C, we believe it is appropriate to segregate credit derivatives from the other swap contracts. For these derivatives, we recommend collection of protection written and protection purchased with the description containing the underlying, as well as columns for notional, ongoing payment, initial payment, maturity, and value. In regards to organization of the swaps reporting, we do not believe it necessary for the commission to dictate organization. As with futures, and options above, our opinion as to underlying indexes or reference baskets remains consistent for all instruments.

Within proposed rule 12-13 through 12-13D, information would be reported including the restricted and illiquid nature of individual investments. This data would aid in monitoring funds' adherence to the limits on ownership of illiquid securities within open-end and ETF RICs. Additionally, plan sponsors acting as fiduciaries and directors acting in their 15C capacity would have this information available as part of their due diligence processes. Similarly, the requirement that the Regulation S-X tables include information as to the pricing source of investments would help fiduciaries complete their responsibilities. This is consistent with the proposed information in form N-PORT and would help investors understand risks associated with valuation.

The requirement to identify positions that are illiquid is adequate and appropriate to replace "investments not readily marketable." This information can tie directly to monitoring of investment limitations under the act.

3. Amendments to Rules 12-12 through 12-12C

For rule 12-12, we believe that the inclusion of the reference rate and spread for variable-rate issuers will be an enhancement that allows investors to clearly identify when cash flows associated with a portfolio's return are fixed or variable. This simple addition helps investors see when the portfolio has some modicum of protection from changing interest rates.

We believe that instruction 2 of the proposed rule is sufficient for classification of instruments held by investment companies. This organization helps the individual investors who are most likely to be using financial statements rather than structured data in their analysis of funds. Identification of instruments deemed to be illiquid or valued with unobservable inputs would be consequential to investors, but it is likely that all investors relying on these classifications will use the structured data of form N-PORT rather than the financial statements.

4. Investments In and Advances to Affiliates

We support the proposed changes to rule 12-14. Consolidation of holdings in controlled foreign corporation and other controlled affiliates is appropriate.

5. Form and Content of Financial Statements

We support the changes to Article 6 of Regulation S-X. We believe this will create consistency between financial statements, schedules attached to financial statements, and the proposed N-PORT disclosure. The proposal will remove current expense reporting in Form N-SAR. We have concerns with regard to the removal of expense information that we address in the "Items Required by Form N-SAR That Would Be Eliminated by Form N-CEN" section of this appendix. Should the commission decide to proceed with the removal of this information from Form N-CEN, we would ask that Item 75 on Form N-SAR—Average Net Assets—be included in Regulation S-X requirements. Further, in the interest of precision, we would ask that the suggested calculation for all companies be based on daily data and not monthly data.

E. Form N-CEN and Rescission of Form N-SAR

Morningstar strongly supports the commission's proposal to modernize the reporting of investment company census data through an XML-based format rather than the format used in Form N-SAR. This data will be much more accessible to the public, and will reduce the amount of defective reporting currently possible in Form N-SAR. We also applaud the decision to include ETF-specific reporting in Part E of the Form N-CEN proposal.

2. Who Must File Reports on Form N-CEN

We believe the coverage of all management companies (other than SBICs), closed-end funds, ETFs (including those that are UITs and exchange-traded managed funds), and unit-investment trusts are appropriate for Form N-CEN.

The commission should allow for some flexibility in how an investment company chooses to report Form N-CEN data while ensuring that the submitted data is of high quality. The most efficient way for the commission to receive this data would be an XML file at the CIK-level with separate nodes for each SeriesId. If a separate N-CEN XML file was required for each distinct SeriesId, then much of the registrant-level data in N-CEN would have to be refiled and reprocessed unnecessarily each time an XML file was submitted to the commission. If the XML file allowed for multiple SeriesIds to be reported on the same XML file, then parsing of the registrant information could be executed much more efficiently.

Each SeriesId under a given CIK could have varying fiscal year ends, so reporting of this information should be flexible to allow for the investment companies to report data for a single SeriesId. If registrant data is re-reported with each series-level submission, the EDGAR Filer Manual should clearly note that previously reported registrant information will be overwritten each time a new file is submitted. This may not be a negative for the commission as it may result in the commission having timelier registrant-level information. In case the changes to registrant information over time are important to the commission, the database housing this information should be designed in time series using the filing date and CIK as a key for each registrant-level data record.

3. Frequency of Reporting and Filing Deadline

Should the commission decide to include Form N-SAR items 34-44, 47-52, 54, 72 and 75 in Form N-CEN, as we suggest in the "Items Required by Form N-SAR That Would Be Eliminated by Form N-CEN" section of this appendix, we would ask that Form N-CEN be reported semi-annually to match the current frequency requirement for Form N-SAR. Morningstar would expect to see these disclosures made at the fund's fiscal year end rather than at the end of the calendar year. This would help to more easily tie information together between Form N-CEN and Form N-CSR. Filing at fiscal yearend would also provide an opportunity for certain types of information, like registrant-level data, to be updated throughout the year. For the commission's reference, we have provided the distribution of Form N-CSRs filed by effective month (that is, fiscal year end month) in the following table. We believe fiscal year-end filings will allow the commission to gather information throughout the year and potentially identify emerging trends more nimbly.

Filing Month in 2014	Form N-CSRs Filed
January	65
February	141
March	268
April	141
May	216
June	166
July	181
August	222
September	315
October	528
November	221
December	838

4. Information Required on Form N-CEN

As a technical comment to information requested in Form N-CEN, we recommend a thorough investigation of the Office of Financial Research's interagency data inventory[7] to ensure that the data being acquired will connect to reporting from other sources. We hope that this review will result in a relational dataset that is of higher analytical value to regulators and the public. The most important component to assess regarding the broader regulatory dataset are the identifiers employed in other reports as these will allow the commission to analyze different dimensions of the financial system. This may also surface opportunities to improve disclosure and data connectivity like the Department of Labor's Form 5500 where relevant identifiers are not currently required in the disclosures.

We also believe there are opportunities where the commission could reduce the number of datapoints requested in the proposal by leveraging information available in other datasets. For example, the commission should not need to request the name of a series (for example, Item 7.a.ii.1) when a series identification number is also requested (for example, Item 7.a.ii.2). The commission would only need to request the series identification number and then "join" the series name data, presumably available in a data table of series identification numbers and series names. The same may hold true for Items 33.a and 33.b requesting detailed information about investment advisors. The Investment Adviser Registration

[7] http://financialresearch.gov/data/interagency-data-inventory

Depository should already house information using the Central Registration Depository Number or SEC File Number as a key[8]. The request for full name, state, foreign country, and so on may be unnecessary as the information may already be accessible in the IARD's data set. Morningstar believes the following items should be reviewed by the commission to determine if reporting requirements on Form N-CEN could be reduced by leveraging relational data that may already exist in the commission's database(s):

- Item 2 -
- Item 3 -
- Item 5.a (Will the commission introduce an N-CEN and N-CEN/A form type to EDGAR? If so, Item 5.a should be answered by querying N-CEN for a given effective date for a given CIK)
- Item 17 -
- Item 18 (Assuming the commission has access to the Public Company Accounting Oversight Board's data set)
- Item 21.e
- Item 25 -
- Item 26 -
    - a - Why would this number be different from the number of ContractIds listed under a given CIK?
    - b - Does the commission store, or could the commission store, the creation-date for each ContractId? If yes, then we believe the commission would be able to generate this information rather than surveying for it.
    - d - The names and ticker symbols are already reported to EDGAR. This should only be requested if the Commission believes that the quality of this information is poor. Also, Morningstar has noticed that the listing of tickers for open-ended mutual funds is not comprehensive in EDGAR[9].
- Item 27.f.i
- Item 27.f.ii
- Item 33 -
- Item 34 -
- Item 40 -
- Item 41.a
- Item 42 -
- Item 55 -
- Item 56 -
- Item 59 -
- Item 62 -
- Item 65 -
- Item 68.a
- Item 69 -

b. Part B – Information About the Registrant

A broader definition of "family of investment companies," like "fund complex," would be beneficial. Several fund complexes charge a "complex fee" or "group fee" which is assessed using average net assets at the

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[8] https://www.sec.gov/foia/docs/invafoia.htm
[9] http://www.nasdaqtrader.com/dynamic/SymDir/mfundslist.txt

"complex" level. We think that understanding whether the entities included when calculating a "group fee" would be a useful proxy for defining this requirement[10].

Morningstar encourages the disclosure of additional information concerning individual directors and CCOs. Data about the length of service of fund directors, the specific funds or fund series that they oversee, the roles they have on the board (such as serving on the audit committee), and their prior experience as fund directors would be useful in evaluating fund directors as stewards of investor capital. Similarly, we encourage disclosure regarding a CCO's length of service and prior experience in order to aid in assessing the caliber of a fund or a fund company's regulatory practices. When defining the precise requirements for this disclosure, the commission should be mindful of some challenges to analyzing this information over time. Morningstar currently collects and analyzes data for fund managers. Given that there are not any distinct identifiers associated with a specific individual manager, managers must be matched based on name and some other identifying information (for example, investment advisor affiliation, educational history, and so on). Managers are disclosed differently from complex to complex or even within different filings for the same complex. For example, an "Elizabeth" in one filing may be presented as "Liz" in another filing. Without a unique identifier for this individual (not all managers have Central Registration Depository numbers), work must be done to identify that "Elizabeth" and "Liz" are in fact the same individual. Morningstar closely studied research from the U.S. Census Bureau[11] to determine the best multi-factor record linkage methodology to rationalize these differences in reporting. If individual fund directors are disclosed in Form N-CEN, and the commission would want to understand the full scope of a director's activity in the industry through years of Form N-CEN filings, we would recommend that either unique identifiers be assigned to individual directors or standards be set for the reporting of biographical details about the individual directors. CRD numbers for a CCO should be sufficiently specific. Related Investment Company Act file numbers may not be specific enough, however, to properly identify individuals, particularly if there are similarly named individuals on various boards. In this case, additional information about the directors coupled with record linkage techniques may provide the commission with tools needed for monitoring.

Given the increase in the number of funds with defined payouts, including the return of capital, the use of "exotic" instruments or practices such as derivatives or leverage not previously allowed in a mutual fund format, as well as funds' investment in less-liquid or difficult to price securities, it is important to know which of these practices, which can affect a fund's risk-adjusted returns, are generally allowable or dependent on a no-action letter. We agree with the proposed reporting of release numbers for each order. Morningstar expects that if investors were to look up a release number filed in Item 16.a.i on the Commission's Investment Company Act Notices and Orders Category Listing webpage[12], they would be able to find the classification of the order. In order to make this information more easily parsed by the public, however, we recommend the inclusion of these categories in Form N-CEN. We encourage similar reporting for no-action letters with the same expectations regarding the classification of these letters on webpages like the commission's Division of Investment Management Staff No-Action and Interpretive Letters[13].

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[10] http://www.sec.gov/Archives/edgar/data/61397/000087846715000352/main.htm
[11] https://www.census.gov/srd/papers/pdf/rrs2006-02.pdf
[12] https://www.sec.gov/rules/icreleases.shtml
[13] http://www.sec.gov/divisions/investment/im-noaction.shtml

Morningstar supports the information the commission is proposing related to valuation in both N-PORT and N-CEN. We encourage that the reporting of information in Item 21.c be codified to better align with reporting in N-PORT. This will allow the commission and the public to more systematically analyze the securities that may be associated with a change in valuation method, rather than interpreting free-form text.

c. Part C – Items Relating to Management Investment Companies

i. Background and Classification of Funds

Morningstar suggests that target-date funds also self-identify whether their glidepath is "to" or "through" retirement. The "Interval Fund" definition in Item 27, Instruction 3 specifically notes closed-end management investment companies, however there is at least one case of exemption to Rule 22(c) and 22(e) for an investment company filing on Form N-1A[14]. The redemption parameters are largely similar to an interval fund. While we understand that this exemptive order should be captured in Item 16, we suggest that the definition of interval fund be expanded to other investment companies. The "index fund" definition is appropriate; however, we strongly encourage that funds using indexes constructed by affiliated service providers be disclosed clearly, as suggested on page 219 of the proposal. Similarly, we think it would be valuable for investors to know whether the index tracked by the index fund is exclusively constructed for the fund. Some fund of funds that use index funds (including ETFs) in their portfolios may identify themselves as index funds. We think the index fund definition included in the proposal, specifically that the investment "seeks to track the performance of a specified index," is clear. However, it is worth monitoring funds that self-identify as both "fund of funds" and "index fund" in Form N-CEN to ensure the fund is truly aiming to replicate the performance of a specified index.

Morningstar agrees with the formulas associated with tracking difference and tracking error. However, our primary suggestion is that both datapoints should be reported on N-PORT with trailing one-year data rather than annually on Form N-CEN. This will also allow the commission to receive observations across all index funds for the same time periods. Monthly reporting of this data on Form N-PORT will also help the commission to be more responsive, particularly in periods of market stress.

iii. Securities Lending

Securities lending disclosure updates in both Form N-CEN and Regulation S-X are commendable. In particular, we strongly support the disclosure of "the terms governing the compensation of the securities lending agent, including any revenue sharing split, with the related percentage split between the registrant and the securities lending agent, and/or any fee-for-service, and a description of services included," and "the details of any other fees paid directly or indirectly, including any fees paid directly by the registrant for cash collateral management and any management fee deducted from a pooled investment vehicle in which cash collateral is invested.[15]" These disclosures on Form N-CEN along with information on Form N-PORT will necessarily advance the information available to the commission and to the public.

v. Expense Limitations

Morningstar remains interested in all examples of "financial support" that show when a fund is being subsidized either through fee waivers, expense and caps, as well as when a fund—and consequently its shareholders—benefit from inter-fund lending, the ability to use underlying vehicles provided by the parent

[14] http://www.sec.gov/Archives/edgar/data/225030/000119312512190725/d339913d485bpos.htm#sai339913_

[15] http://www.sec.gov/rules/proposed/2015/proposed-amendments-to-regulation-s-x.pdf

company "at cost," or when the promotion and distribution of a fund are supported by a fund company (as opposed to shareholder) assets.

Expense limitation information reported in Item 32 is somewhat valuable, but we believe that reporting of actual dollar values rather than Boolean fields would be more valuable. This information, among other fee and expense data that will not be available in N-CEN but is currently available in N-SAR, is crucial in supporting the fiduciary responsibilities of plan sponsors and directors.

vi. Service Providers

Morningstar recommends the separation of transfer agent fees from sub-transfer agent fees with disclosure of the nature of the services rendered by the sub-transfer agent(s). This information will allow the commission and fiduciaries to more precisely assess the shareholder costs paid for services received.

5. Items Required by Form N-SAR That Would Be Eliminated by Form N-CEN

The proposal will remove the reporting of fee and expense information currently available semi-annually on Form N-SAR citing that the information is available in Form N-CEN. Morningstar encourages the continued reporting of these fees on Form N-CEN as they are necessary for fiduciaries to efficiently and comprehensively fulfill their due diligence responsibilities. The removal of this information from a consistent, semi-annual reporting mechanism like Form N-SAR will simply make this information more difficult to acquire and analyze during activities like 15(c) reviews. As such, we would ask the commission to reconsider the exclusion of Form N-SAR items 34-44, 47-52, 54, 72, and 75. Morningstar believes that while this information is available through sources like annual reports, semi-annual reports, prospectuses, and SAIs, the manual aggregation of this information would put comprehensive analysis of the information out of reach for investors and fund boards unless they were using services from third-party market data providers that may have the means to conduct such data aggregation.

With particular respect to Item 75 on Form N-SAR, we strongly encourage that this information be reported on Form N-PORT and that the average net assets calculation be amended to provide a more precise result. First, this data is not commonly reported by investment companies in their annual reports or semi-annual reports. The data could be derived using ratios available in the annual report, but as the expense ratios are reported to two decimal places, the resulting average net assets are imprecise. Morningstar has conducted a thorough analysis of the small number of investment companies that do report their average net assets in their annual reports, and we found that calculating the average net asset value using expense ratios is less precise than calculating the average net assets using daily total net asset data. The calculation of average net assets using month-end total net assets results in a small number of observations representing the entire reporting period. We recommend, instead, that the commission adopt a methodology using daily observations of total net assets to result in a more precise and accurate figure for average net assets. This is very important in the 15(c) process as all expenses reported in the statement of operations are expressed to fund Boards as a percentage of average net assets. Inaccuracies in the average net assets result in inaccurate expense ratios. Differences of even several basis points could result in fund Boards either undercharging or, of greater concern, overcharging expenses.

Morningstar also suggests that average net assets be calculated on a share-class level rather than at the fund-level. The reporting of daily total net assets divided by all days the share class was tradeable during a given month divided by the number of tradeable days in a month is recommended on Form N-PORT.

Investors could then simply take the average of the reported monthly values to derive the average net assets for the reporting period (semi-annually or annually).

If a fund is filed for less than a typical reporting period—fewer than six months for a semi-annual filing or fewer than 12 months for an annual filing—then part of the reporting requirements should include the disclosure of how many days are in the reporting period or the reporting of start dates and end dates to allow for simple unannualization/annualization of reporting values. There are two scenarios in which a fund would have fewer than the expected amount of days in the reporting period. First, the fund incepted during the reporting period. Second, the fund changed its fiscal year end.

Morningstar recommends revising the 12b-1 plan requirements in favor of distribution plan disclosure, with details of how distribution costs were spent to improve the economies of scale of the fund as a whole (effective advisor fees and fund-level administrative fees) as well as share-class level administrative and operational expenses. Moreover, we support measures that would gauge the effectiveness of distribution fee expenditure in terms of inflows and outflows as well as investor (dollar-weighted) returns.