



April 14, 2016

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

Re: Transfer Agent Regulations; SEC File No. S7-27-15

Dear Mr. Fields:

Morningstar, Inc. appreciates the opportunity to comment on the SEC's Advanced Notice of Proposed Rulemaking relating to transfer agent regulations. On behalf of fund investors, whom we serve throughout the world, we offer suggestions to improve the transparency and standardization of reporting of transfer agency and other fund fees. We believe that greater fee transparency and standardization would yield tremendous benefits for investors, as well as for fund directors, who at times must evaluate vendor contracts, including transfer agency fees, with insufficient peer-group data to make informed decisions.

Based on our discussions with fund directors and independent evaluation of fee issues, we suggest the SEC's rulemaking include the following elements for each investment governed by the Investment Company Act of 1940:

- Employ a common definition of transfer agency (TA) fees as applied to mutual funds, including open-end, closed-end, variable annuity, money market, and exchange-traded funds.
- Disclose TA fees under that heading, according to the common definition below for each share class of each fund, the schedule by which those fees are determined, and the actual (gross and net) fees charged to the holders of that share class.
- Separate, and also fully disclose, according to the same standards as for TA fees, sub-TA or "intermediary" fees.
- List a standard set of TA functions, and indicate a) whether they are performed by the fund or its agents for investors in that share class; b) whether it is the TA or a sub-TA that performs those functions; and c) whether the TA or sub-TA is a subsidiary of the fund manager, an affiliate, or a third party.

We suggest that the Commission require fee disclosure according to the following breakdown of TA functions:

- Maintaining of the books and records of the fund, including ownership, trades, and transactions.

- Determining the payout of dividends to shareholders and the effects of other corporate actions.
- Providing shareholder communications and services via phone, mail, and Internet.
- Carrying out tax, audit, and legal functions.
- Overseeing intermediaries who acquire fund shares on behalf of investors.

Too often, fund companies bundle TA fees into all-inclusive expense categories, making it difficult for investors and fund directors to make important peer-group fee comparisons. We also note that fund managers use different breakdowns and terminology for TA fees, making fee comparisons among funds more difficult or impossible. We therefore suggest that in the Commission's rulemaking process, it consider requiring the following:

- Removing TA fees from other expense component types, such as fund administration and shareholder services.
- Designating TA-like functions as such, rather than using a separate terminology for share classes owned directly by individual investors, those held in omnibus accounts, and those held in a qualified account.
- Eliminating expense categories and names such as networking, omnibus, revenue sharing, platform, and "other" fees.

Accurately tracking TA fees on a share class level will require the following, in our opinion:

- A clear line between administrative fees, assessed to all shareholders in a fund in proportion to their assets at the fund level, and TA fees, assessed to all shareholders in a given share class either in proportion to their assets or in line with their account size and type.
- A clear line between TA fees, paid in exchange for services rendered to the shareholder, and both distribution fees, paid to support the scale and availability of the fund to particular kinds of investors, and advice fees, paid for services subject to a fiduciary or other standard of prudence.

We believe that these enhancements to the standardization and transparency of fee reporting would deliver large benefits to investors. By allowing for a more-accurate comparison of fees across funds and fund managers, it will be much easier for fund directors, analysts, and investors to evaluate the reasonableness of funds' fee arrangements. These enhancements would likely improve the ability of fund directors to represent the interests of investors, and deliver lower costs to investors.

If the Commission elects to address TA fees as part of this rulemaking process, Morningstar would be delighted to provide additional feedback and comments, as well as the results of our research into the fee-related data needs of fund directors.

Sincerely,

Paul Ellenbogen
Director, Board Consulting Services
Morningstar, Inc.

Scott Cooley
Director of Policy Research
Morningstar, Inc.