Financial Industry Regulatory Authority

FINRA 2014 Year in Review and Annual Financial Report

Richard G. Ketchum
Chairman and
Chief Executive Officer

FROM THE CHAIRMAN AND CEO

Transforming Regulation

In 2014, FINRA celebrated 75 years of regulating the U.S. securities markets. While our mission to protect investors and keep the markets fair has remained the same throughout the years, we continue to seek and embrace innovative methods that help us meet our mandate.

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Today, FINRA is continuing to transform regulation through technology, and is enhancing our regulatory approach with a greater emphasis on data collection and analysis. Our goal is to implement effective technology solutions that support our oversight programs to protect investors and maintain market integrity. Specifically, FINRA is applying technology to sharpen the focus of our firm examinations and surveillance, and promote more holistic and effective market surveillance while opening up markets to greater transparency. In 2014, FINRA took significant steps that furthered our goals in each of these areas.

Sharpening the Focus of Our Examinations

In my letter to you last year, I described our technology investments to build sophisticated surveillance systems and process large amounts of data. Since then, we have made significant strides to further transform our regulatory program to be more risk-based and data-driven.

For example, last year we enhanced our examination platform and refreshed the technology to provide greater efficiency in our firm oversight. In the fall of 2014, following the rollout of this new platform, we asked firms for their perceptions of the new process. Firms noted significant improvements in the efficiency and effectiveness of FINRA examinations. They noted improved communications between FINRA and their firms, and also told us that their cycle exams were more efficient, more likely to focus on risks that were most meaningful to firms of their size and the duration of the on-site visit shorter.

In consultation with the industry, we are working to further enhance our capability to use data and analytics to better understand trends and product concentrations that are potentially harmful to investors, as well as suspicious activities that we might not identify through our current examination programs. To support these efforts, early this year, we created the Office of Advanced Data Analytics to improve how we parse and act on the data we currently gather from firms. Working closely with departments across FINRA, the office will define opportunities to use the data we gather, while increasing our regulatory efficiency.

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In addition to these technology initiatives, we have enhanced our examination program through increased focus on emerging issues, especially in areas where there are no current rule requirements. As a result, we have published additional guidance on effective industry practices that promote better investor protection and that firms can use to bolster controls and compliance procedures.

For example, last year we launched a targeted exam to explore cybersecurity, and in February of this year, we published a report to highlight effective practices that firms should consider to strengthen their cybersecurity programs. Given the increasing frequency and sophistication of cyberattacks, we will continue to assess the adequacy of firms' cybersecurity programs.

We followed the publication of the cybersecurity report with the release of a study on senior investors. The *National Senior Investor Initiative Report*, published jointly with the Securities and Exchange Commission (SEC) in March 2015, includes observations and practices identified in examinations that focused on how firms conduct business with senior investors. Our goal in publishing the report is to help broker-dealers assess, develop, and refine their policies and procedures for investors preparing for, and entering, retirement. In addition, in April 2015, FINRA launched a securities helpline for senior investors—a toll-free number where seniors can get assistance from FINRA on concerns with brokerage accounts and investments.

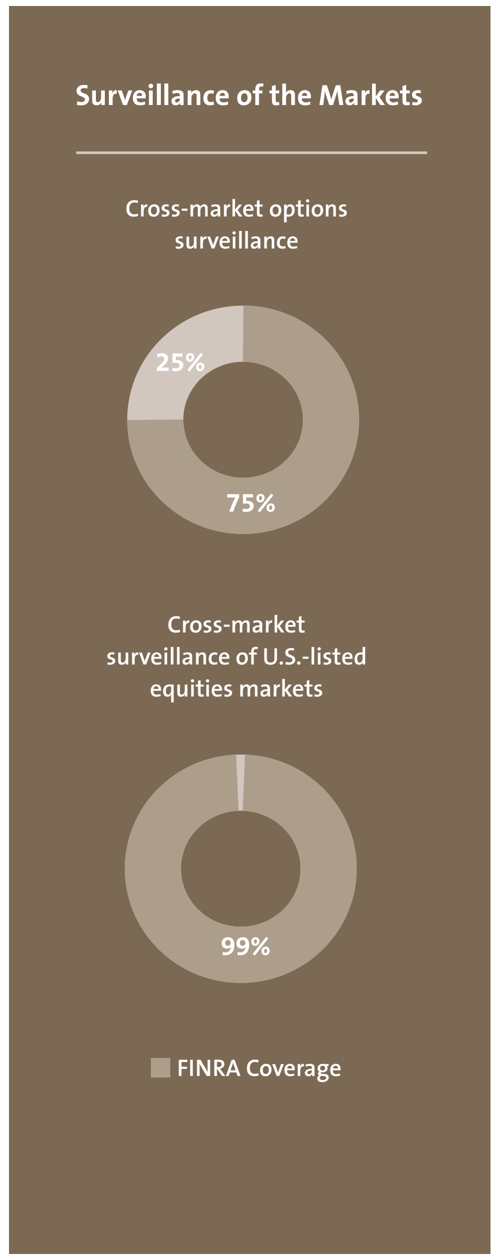
In 2014, we also completed a number of examinations focused on liquidity risk management practices; and, this year, we expect to provide additional guidance to firms highlighting effective practices to manage funding and liquidity in times of market stress. Where appropriate, we plan to continue publishing studies and reports to promote effective industry practices, without necessarily moving forward with additional rulemaking.

Promoting Unified and Effective Surveillance of the Markets

We continued to enhance the technology that powers our market surveillance program. Specifically, we implemented cloud computing solutions to improve data storage and operating efficiencies for our Order Audit Trail System (OATS™) and other market surveillance systems. Cloud solutions offer significant financial and operational benefits, such as allowing our analysts to more quickly analyze the vast amounts of market data that FINRA collects each day.

Last year, we also significantly increased our cross-market surveillance capabilities by strengthening our ability to track trading across markets and products.

Last year, we also significantly increased our cross-market surveillance capabilities by strengthening our ability to track trading across markets and products. In December, we signed an agreement with the Chicago Board Options Exchange (CBOE) to provide market surveillance, financial surveillance, examination, investigation, enforcement and other services to the CBOE and C2, the CBOE's fully electronic options exchange. As part of this agreement, the Options Regulatory Surveillance Authority (ORSA) also became part of FINRA's Insider Trading Surveillance program.



With this agreement, along with an expansion of the services we provide to the International Securities Exchange to include cross-market options surveillance, FINRA now conducts cross-market options surveillance for approximately 75 percent of the options market. In addition, FINRA is now conducting insider trading surveillance for all listed equities and options in the United States.

In addition, we reached a significant milestone in our cross-market equity surveillance program. We completed the integration of the two equity exchanges operated by BATS Global Markets, Inc. into our cross-market equity surveillance program in November 2014. As a result, the program covers 99 percent of the listed equities markets. Every day, FINRA analyzes more than 30 billion market events. Our surveillance program includes a suite of 29 cross-market surveillance patterns that address more than 50 threat scenarios, including layering, spoofing, marking the close, wash sales, and other manipulative and distortive conduct.

Together, the expansion of our surveillance programs across different markets and securities significantly increases our ability to identify instances where a market participant engages in potentially abusive conduct on multiple markets in an attempt to avoid detection. Our cross-market surveillance patterns allow us to track orders from their inception, as they move through markets and are either cancelled, replaced or executed. This is particularly important since some market participants are increasingly dispersing their activity across trading venues in an effort to mask improper trading schemes. More than 50 percent of our trading alerts involve conduct occurring on more than one market, and more than 45 percent of our cross-market alerts involve two or more market participants.

The expansion of our surveillance programs across different markets and securities significantly increases our ability to identify instances where a market participant engages in potentially abusive conduct on multiple markets in an attempt to avoid detection.

The technology behind this increasingly overarching surveillance allows us to be aggressive about finding improper conduct, such as manipulative activity. Last year, FINRA successfully brought a manipulation case on behalf of our options exchange clients against a firm and an individual for executing bursts of equity trades that artificially moved the options market. Specifically, the trader bought and sold equities to manipulate the prices of the overlying options, which allowed the firm and trader to purchase or sell the options at more favorable prices. FINRA also found that the firm, and the supervisor, failed to establish, maintain and enforce supervisory procedures designed to detect the manipulative activity. This case represents a landmark in efforts to discipline cross-product manipulations.

Enhancing the Integrity and Transparency of the Markets

Working in partnership with the SEC, FINRA took steps in 2014 to address concerns about market structure and help strengthen the integrity of our markets.

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In June, FINRA began publishing reports of alternative trading systems (ATS) volume on a stock-by-stock basis, giving the public an opportunity to see the total shares traded each week by security in each ATS, or "dark pool." Providing a clear view of the level of trading activity on ATSs increases market transparency, thereby enhancing investor confidence.

We also proposed additional steps to improve FINRA's oversight of algorithmic trading activity. In the area of equity trading, we focused our rulemaking efforts on automated trading activities, including high frequency trading (HFT), with three primary objectives: to enhance our ability to monitor automated trading, including the type and quality of information and data FINRA receives; to provide market participants and investors more transparency into trading activities; and to ensure that firms engaged in automated trading activities and their employees are properly trained, educated and accountable for their activities.

FINRA BY THE NUMBERS

- **3,500** employees dedicated to market integrity and investor education
- **17** offices across the U.S.
- More than **700** fraud cases referred for prosecution in 2014
- **30 billion** on average—and up to 50 billion—transactions processed every day
- FINRA uses its technology to look at nearly **99 percent** of trading in U.S. equities markets.
- **636,707** brokers under FINRA's supervision

FINRA's proposals call for ATSs to provide more in-depth quoting information for regulatory surveillance; tighter restrictions around allowable clock drift to better ensure proper sequencing of events; greater transparency of volume executed away from stock exchanges; registration requirements for persons involved in the design, development and significant modification of trading algorithms; and more granular audit trail information.

Given the risks that arise when firms use poorly programmed algorithmic trading strategies, FINRA thinks it is appropriate to require associated persons primarily responsible for the design, development or significant modification of algorithmic trading strategies, or those supervising or directing such activities, to meet the same minimum competency standards for knowledge of securities regulations that individual traders must meet. In March of 2015, we published a *Regulatory Notice* seeking comment on a proposal to establish a registration requirement for these individuals. We also published another *Regulatory Notice* in March 2015 reminding firms of their existing supervisory obligations with regard to the development and deployment of algorithmic trading strategies.

In addition to the equity market initiatives, FINRA's Board approved proposals to enhance transparency and execution quality in the fixed income markets. We proposed a rule to require that additional pricing information be provided to customers on their trade confirmations in corporate and agency debt securities. Putting additional pricing information in the hands of customers will better enable them to evaluate the cost and quality of the services firms provide and encourage communications between firms and their customers about their fixed income transactions.

To inform FINRA's regulation of and strengthen our ability to conduct surveillance of fixed income trading, FINRA also proposed requiring ATSs to report to FINRA quotation information for corporate and agency debt securities. This rule proposal would be a first step toward providing FINRA with better insight into the scope and accessibility of pre-trade transparency in the fixed income markets.

Enforcing the Rules

FINRA remains committed to ensuring that investors have confidence in the market. Taking swift enforcement action when we find wrongdoing and seeking restitution for harmed investors are two examples of how we are working to build and maintain investor confidence. In 2014, FINRA brought 1,397 disciplinary actions against registered individuals and firms, and levied $132.6 million in fines. We expelled 18 firms from the securities industry, suspended five firms and 705 registered persons, and barred 481 registered persons from associating with FINRA-regulated firms. In addition, we ordered $32.3 million in restitution to harmed investors.

Often, conflicts of interest are a contributing factor to many FINRA enforcement actions. For example, in December 2014, FINRA sanctioned 10 firms for allowing their equity research analysts to solicit investment banking business and for offering favorable research coverage in connection with a planned initial public offering. The settlement is evidence of our commitment to policing the boundaries between research and investment banking to ensure that research is not improperly influenced for the sake of generating capital-markets business.

Taking swift enforcement action when we find wrongdoing and seeking restitution for harmed investors are two examples of how we are working to build and maintain investor confidence.

In a separate case, we sanctioned a firm $15 million for failing to adequately supervise communications between its equity research analysts and its clients and its sales and trading staff, and for permitting one of its analysts to participate indirectly in two road shows promoting IPOs to investors.

In addition to the disciplinary actions FINRA takes against firms we oversee, we also refer cases that fall outside our jurisdiction to the SEC or other regulators or law enforcement agencies. In 2014, FINRA's Office of Fraud Detection and Market Intelligence (OFDMI) referred more than 700 matters involving potential fraudulent conduct—including insider trading, pump-and-dump schemes and Ponzi schemes—to the SEC and other federal or state law enforcement agencies. For example, in February 2014, the SEC charged a senior managing director at a New York-based investment banking firm with improperly using material nonpublic information he obtained through his work to place trades in online brokerage accounts of his father and a friend. In total, the insider trading scheme generated more than $950,000 in illicit profits. Parallel criminal securities fraud charges were filed to which the investment banker pled guilty in April 2014. He is currently serving a 30-month prison sentence. The SEC and criminal cases stemmed, in part, from a referral to the SEC by OFDMI.

Enhancing the Effectiveness and Efficiency of Our Rules

We continue to assess our rules to strengthen them where appropriate. In April 2014, we initiated the retrospective rule review process by issuing two *Regulatory Notices* requesting comment on FINRA's communications with the public rules, and the gifts, gratuities and non-cash compensation rules. In addition to the viewpoints we received during the comment process and through subsequent interviews with subject-matter experts, FINRA collected additional information about firms' experiences with the two rule sets through anonymous surveys.

In December 2014, FINRA staff published reports describing what they have learned about these rules in the course of the feedback and comment process. The reports recommend that FINRA explore a combination of updated guidance and rule modifications and administrative measures to enhance the rules. This year, we plan to take steps to address the recommendations. For example, in May 2015, we proposed revisions to the filing requirements pertaining to retail communications and to refine the scope of disclosures required.

In March of this year, we launched a review of the membership rules, including the new member and continuing member application processes (MAP rules). We believe the complex MAP rules may benefit from a comprehensive assessment.

Transparency Initiatives

FINRA continuously works to improve the accuracy and totality of information that investors receive. For example, with respect to BrokerCheck®, we proposed—and the SEC approved—a rule change to require background checks on applicants for registration, including first-time applications as well as transfers. This change will enhance the accuracy and completeness of the information contained in an applicant's Form U4—and ultimately the accuracy of information in FINRA's Central Registration Depository (CRD®), from which the information in BrokerCheck is derived.

FINRA INVESTOR EDUCATION FOUNDATION BY THE NUMBERS

- The Foundation's grant programs have provided **$40.9 million** in funding for 279 research and education initiatives.
- Smart investing@your library® has engaged more than **1,000** library facilities in **39 states** to build financial capability.
- Financial Education in Your Community has supported 68 projects through more than **$8 million** in funding to grantees who demonstrate new approaches to improving financial outcomes for low- to moderate-income families.
- Collaborating with national and local partners, the Investor Protection Campaign has delivered our fraud prevention trainings to nearly **90,000** people.
- We have educated more than **35,000** members of the military community at face-to-face forums on installations worldwide and at sea, and equipped thousands of military financial educators with tools and training to military service members and their families.
- Generation Money has reached **5 million** middle and high school students each year since 2008.

In addition, FINRA began a search of available public records for financial disclosures that may not have been reported, and for criminal disclosures that may not have been reported by registered individuals who have not been fingerprinted within the last five years. We expect to conclude this process by this summer. Once these searches are completed, FINRA will conduct periodic reviews of public records to ascertain the accuracy and completeness of the information available to investors, regulators and firms.

FINRA also expanded public access to transaction information on fixed income securities reported to our Trade Reporting and Compliance Engine® (TRACE®) system, which captures real-time transaction data for eligible fixed income securities. In June 2014, we began disseminating Rule 144A transactions in TRACE-eligible securities for those asset types currently subject to dissemination; and in June 2015, we began real-time dissemination of transactions in asset-backed securities.

Continuing to shed light on opaque areas of the fixed income market remains a top priority for us, and we have proposed expanding the dissemination of additional categories of fixed income products. In December 2014, the Board approved a proposal to amend TRACE rules to provide for public dissemination of transaction information in additional securitized products. Earlier this year, we proposed a further expansion of the list of securitized products that are subject to public trade dissemination to include all remaining types of securitized products: collateralized mortgage obligations, commercial mortgage-backed securities and collateralized debt obligations.

Investor Education Initiatives

FINRA is committed to ensuring that investors have the knowledge and resources to capably navigate markets and make informed choices regarding firms, brokers and products. In February 2015, FINRA's Board agreed to direct a portion of enforcement fines collected in 2014 to the FINRA Investor Education Foundation, approving a $50 million contribution that will provide continuing support for the Foundation's innovative research and education efforts. In 2015, the Foundation successfully completed the spend-down of the $55 million it received through the Global Research Analyst Settlement as required by the 2005 District Court overseeing the settlement.

Throughout 2014, the Foundation expanded its distribution of innovative financial education material, including a new documentary for public television. In October 2014, the Foundation's hour-long documentary—*Thinking Money: The Psychology Behind Our Best and Worst Financial Decisions*—was released to public television stations nationwide. Through December 31, the program achieved 184 airings on public television stations in 66 television markets, including seven of the nation's top 10 media markets. The documentary focuses on pitfalls in consumer financial decision-making and offers practical takeaways for overcoming these pitfalls.

The Foundation also launched a workplace financial education training program, *Financial Capability@Work*, and in October 2014, sponsored the first training program in Burlington, Vermont. The program was hosted in partnership with the United Way of Chittenden County, one of the Foundation's most innovative and successful grantees focusing on workplace financial education. The training experience was designed to empower nonprofit leaders to establish similar workplace financial education programs.

Financials

Financially, 2014 was a strong year for FINRA due primarily to an increase in revenue and our continued efforts to control costs. In light of FINRA's strong operating revenue for 2014, FINRA distributed a $20 million discretionary rebate to firms, and for the second consecutive year, all active firms in good standing received a $1,200 rebate to offset their minimum Gross Income Assessment fee. Firms also received a rebate based on their prorated share of regulatory fees paid into FINRA, including the Gross Income Assessment, Branch Office Assessment, Trading Activity Fee and Personnel Assessment.

Examples of our efforts to control costs include lowering compensation expense as a result of FINRA's 2013 Voluntary Retirement Program, while keeping occupancy and general and administrative expenses relatively flat year over year. A more detailed view of our 2014 financials can be found on the following pages.

Looking Ahead

For more than 75 years, FINRA has been vigilant in our oversight of the U.S. securities markets, and we are committed to maintaining our legacy as an effective and efficient regulator. We recognize that continuing to invest in leading-edge regulatory technology and data analysis capabilities is essential to our success. We are excited about the opportunity to transform the way we regulate the securities industry, and protect investors and uphold the integrity of U.S. capital markets.

Richard G. Ketchum
Chairman and Chief Executive Officer

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2 Susan F. Axelrod, Executive Vice President, Regulatory Operations; Robert L.D. Colby, Chief Legal Officer

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5 Steve A. Joachim, Executive Vice President, Transparency Services

6 Susan F. Axelrod, Executive Vice President, Regulatory Operations; Robert L.D. Colby, Chief Legal Officer

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Management Report on Financial Operations

OVERVIEW

The Financial Industry Regulatory Authority, Inc.® (FINRA®) is the largest independent regulator of securities firms doing business with the public in the United States. Our core mission is to pursue investor protection and market integrity, and we carry it out by overseeing virtually every aspect of the securities industry. As of December 31, 2014, FINRA oversaw nearly 4,100 brokerage firms, approximately 161,600 branch offices and about 636,700 registered securities representatives.

We regulate the activities of the U.S. securities industry and perform market regulation pursuant to our own statutory responsibility and under contract for the New York Stock Exchange LLC (NYSE), NYSE Arca, Inc. (NYSE Arca), NYSE MKT LLC (NYSE MKT), the NASDAQ OMX Group, Inc. (NASDAQ), NASDAQ OMX BX, Inc. (Boston), NASDAQ OMX PHLX LLC (Philadelphia), BATS Global Markets, Inc. (BZX and BYZ), the Direct Edge exchanges (EDGA and EDGX), the International Securities Exchange and other exchanges. On December 19, 2014, FINRA signed an agreement with the Chicago Board Options Exchange and the C2 Options Exchange (CBOE and C2) to provide regulatory services to these exchanges starting January 1, 2015. We also regulate the over-the-counter (OTC) securities markets for listed and unlisted equities and the OTC markets for corporate bonds, asset-backed instruments, certain government agency instruments, municipal securities and other fixed income instruments. Our regulatory functions include onsite examinations of securities firms, continuous automated surveillance of markets and disciplinary actions against firms and registered representatives.

We provide arbitration and mediation services to assist in the resolution of monetary and business disputes between and among investors, securities firms and registered representatives. We also provide dispute resolution services for several exchanges through contractual agreements, thereby offering consistent procedures and the uniformity of a single forum for the resolution of securities industry-related disputes.

We provide technology-driven registration, testing and continuing education, and other regulatory services, as well as essential operations and support services to firms, other self-regulatory organizations, the Securities Exchange Commission (SEC), the North American Securities Administrators Association, state regulators, the investing public, the Conference of State Bank Supervisors and its wholly-owned subsidiary, the State Regulatory Registry LLC. We developed and continue to enhance BrokerCheck®, a free tool that helps investors research the professional backgrounds of current and former FINRA-registered brokerage firms and brokers, as well as investment adviser firms and representatives.

We are committed to ensuring that investors and market participants have access to trade information so they can more effectively access securities prices and valuations through the management and operation of FINRA's OTC market transparency facilities. These facilities include the Trade Reporting and Compliance Engine® (TRACE®) for fixed income securities, the OTC Reporting Facility™ (ORF™) for equity securities not listed on an exchange and Trade Reporting Facilities® (TRFs®), operated in partnership with NYSE and NASDAQ, for OTC trading in equity securities that are listed on an exchange. In this capacity, we provide the public and professionals with timely quotes and trade information for equity and debt securities.

The FINRA Investor Education Foundation® (the Foundation), a consolidated subsidiary of FINRA, provides underserved Americans with the knowledge, skills and tools necessary for financial success throughout life. The Foundation supports innovative research and educational projects aimed at segments of the investing public who could benefit from additional resources.

With approximately 3,500 employees, we are the first line of defense for investors — working in communities all across the nation. Not only do we examine broker-dealers for compliance with our own rules; we also examine them for compliance with federal securities laws and rules of the Municipal Securities Rulemaking Board. We continue to enhance our risk-based regulatory program leveraging data analytics and the use of a new platform which supports our examination responsibilities.

Management Report on Financial Operations (continued)

FINRA's market surveillance systems process approximately 30 billion market events each day to closely monitor trading activity in equity, options and fixed income markets in the United States. With the completed integration of BATS Global Markets, Inc. in November 2014, our cross-market surveillance program covers 99 percent of U.S.-listed equities markets. As a result of the regulatory services agreement with CBOE and C2, we now conduct certain cross-market options surveillance for about 75 percent of the options market. As noted in FINRA Chairman and CEO Rick Ketchum's letter (the CEO letter), this expansion of our surveillance programs across different markets and products increases our ability to identify instances where a market participant engages in potentially abusive conduct on multiple markets in an attempt to avoid detection. We also conduct market surveillance for corporate bonds, asset-backed instruments, certain government agency issues, municipal securities and other fixed income instruments.

We also remain vigilant in our efforts to swiftly take action against fraud and misconduct. In 2014, we referred more than 700 potential fraud and insider trading cases to the SEC and other federal agencies for litigation and/or prosecution. We share information with other regulators to enable them to take actions that prevent further harm to investors.

In 2014, FINRA brought 1,397 disciplinary actions against registered individuals and firms. As part of those disciplinary actions, we levied 645 fines totaling more than $132 million and ordered restitution of more than $32 million to harmed investors. While the number of monetary sanctions declined 14.5 percent from 2013, the dollar amount of the fines more than doubled, due in part to the fines highlighted in the CEO letter.

This Management Report should be read in connection with the consolidated financial statements and accompanying notes included elsewhere in this Annual Financial Report. The 2014 consolidated financial statements reflect the activities of FINRA and its consolidated subsidiaries, collectively referred to as "we," "our," "us," "FINRA" or the "Company" throughout this Management Report. As of and for the years ended December 31, 2014 and 2013, FINRA's primary consolidated subsidiaries are FINRA Regulation, Inc., FINRA Dispute Resolution, Inc. and the Foundation.

Our consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles. We are required to adopt accounting principles and make estimates and judgments to develop amounts reported in the consolidated financial statements and accompanying notes.

Our significant accounting policies are described in Note 2, "Summary of Significant Accounting Policies," Note 5, "Fair Value Measurement," and Note 7, "Employee Benefit Liabilities," to the consolidated financial statements.

SUMMARY OF OPERATIONS

The following table provides a summary of our operations for the two years ended December 31, 2014.

	Years Ended December 31,	
	2014	2013
	(in millions)	
Net revenues	$ 996.6	$ 900.7
Total expenses	(964.8)	(998.9)
Interest and dividend income	26.0	24.8
Operating income (loss)	57.8	(73.4)
Net realized and unrealized investment gains	34.6	2.4
Equity earnings from other investments	37.8	73.6
Other	(1.2)	(0.9)
Net income	$ 129.0	$ 1.7

Management Report on Financial Operations (continued)

Net revenues grew 10.6 percent driven mainly by an increase in fines. Expenses declined 3.4 percent, due in part to the reduction in headcount associated with our 2013 Voluntary Retirement Program (VRP), as discussed below. Unrealized gains related to our trading portfolio increased year over year, driven by robust bond market returns. Equity earnings, while down compared to last year, were positive and in line with benchmarks. All of these factors contributed to net income of $129.0 million for 2014.

On October 7, 2013, FINRA announced the implementation of a VRP. The VRP was designed for those employees who were retirement-eligible (minimum age of 55) and when combined with years of service, reached a minimum combined age/years of service of 65 as of January 31, 2014. The VRP included provisions for benefits in the form of severance payments; medical, dental and vision benefits; outplacement services; eligibility and payout for various bonus programs; and additional service credits for the FINRA pension plan or contributions to the defined contribution component of the savings plan, as applicable. A total of 176 FINRA employees participated in the VRP. We followed the accounting guidance related to pension plan special termination benefits and severance benefits provided under the VRP.

Management Report on Financial Operations (continued)

BALANCE SHEET

Our focus is to ensure a strong balance sheet, so that we are financially positioned to respond to the regulatory needs of investors in today's continually evolving markets. To that effect, our balance sheet remains strong, with net assets of approximately $1.5 billion and $1.4 billion as of December 31, 2014 and 2013. FINRA's working capital was $856.6 million as of December 31, 2014, and $633.1 million as of December 31, 2013. Our working capital and cash ratios were 2.32 and 2.06 as of December 31, 2014, compared to 1.96 and 1.73 as of December 31, 2013. The increase in FINRA's cash ratio was driven by an increase in fines and SEC fees received year over year. The increases in FINRA's working capital and working capital ratio were driven by the increase in fines and SEC fees stated above, as well as the transfer of $100.0 million from our broadly diversified multi-asset fund (classified as a long-term asset) to help establish our income-oriented equity portfolio (classified as a current asset).

Assets

FINRA had total assets of approximately $2.4 billion and $2.3 billion as of December 31, 2014 and 2013, including total cash and investments (as defined below) of approximately $2.1 billion and $2.0 billion as of December 31, 2014 and 2013. FINRA's total assets increased $128.5 million or 5.7 percent in 2014 primarily due to increases in cash and investments and receivables, offset by decreases in property and equipment and other assets.

Cash and investments: FINRA's investment portfolio was created to support FINRA in fulfilling its mission to protect investors and maintain market integrity by providing FINRA with supplemental financial resources. FINRA's investment policy strives to preserve principal, in real terms, while seeking to earn a long-term rate of return commensurate with the degree of risk deemed appropriate for FINRA assets. This is accomplished through a low volatility asset allocation.

Cash and investments (cash, cash equivalents and trading, available-for-sale and other investments, including investments receivable), represent the largest portion of FINRA's total assets, approximately 87 percent as of December 31, 2014. Our primary market risk relates to our investment portfolio. Our investments are impacted by fluctuations in the securities markets and interest rates, as well as other financial and nonfinancial risks.

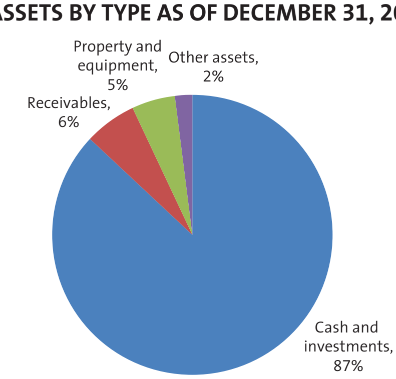
In 2014, the increase in cash and investments was primarily driven by investment portfolio returns of 5.8 percent and increases in fines and SEC fees received year over year, offset by our pension plan contribution.

As of December 31, 2014, our portfolio exposures were as follows: bonds and cash, 47 percent; equities, 34 percent; alternatives, 11 percent; and real assets, 8 percent.

Our investment portfolio is highly liquid, with 57 percent available in 30 days or less as of December 31, 2014.

Receivables: Receivables, net of an allowance for uncollectible accounts, increased primarily as a result of an increase in the dollar amount of fines assessed in 2014 versus 2013 and an approximate 27 percent SEC fee rate increase from December 31, 2013, to December 31, 2014.

ASSETS BY TYPE AS OF DECEMBER 31, 2014



Assets as of December 31, 2014 and 2013:

	2014	2013
	(in millions)	
Cash and investments	$2,076.2	$1,954.1
Receivables	139.4	107.0
Property and equipment	115.1	132.1
Other assets	54.4	63.4
Total assets	$2,385.1	$2,256.6

Assets (continued)

Property and equipment: Property and equipment, net of accumulated depreciation and amortization, decreased as a result of depreciation.

Other assets: Other assets, which consist primarily of prepaid expenses, intangible assets, accrued interest related to our investments and the Foundation's restricted cash, decreased as a result of the Foundation's continued use of restricted cash to fund investor education projects.

Liabilities

FINRA's total liabilities increased $66.9 million or 7.9 percent, as increases in pension and other postretirement liabilities, SEC fee payable and other liabilities were partially offset by decreases in accrued personnel and benefit costs, investments payable and deferred liabilities.

Pension and other postretirement: Pension and other postretirement benefit costs represent a significant liability to FINRA in terms of both the assumptions used to estimate the liability and its portion of FINRA's total liabilities, 25 percent as of December 31, 2014.

In calculating the liability and expense related to our pension and other postretirement plans, we use several statistical and other factors, which attempt to anticipate future events. Key factors include assumptions about the expected rates of return on plan assets and the discount rate as determined by FINRA, within certain guidelines, as well as assumptions regarding future salary increases, mortality, turnover, retirement ages and the medical expense trend rate. We consider market conditions, including changes in investment returns and interest rates, in making these assumptions. The discount rate used in the calculations is developed using a composite yield curve analysis based on a portfolio of high quality, non-callable marketable bonds.

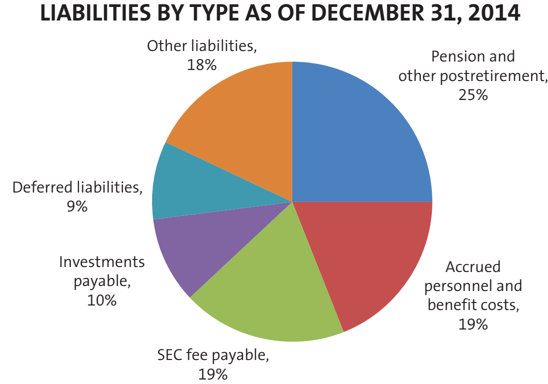
The decrease in our pension plan discount rate from 5 percent as of December 31, 2013, to 4.2 percent as of December 31, 2014, was the primary reason for the increase in pension and other postretirement liabilities (current and long-term), and the corresponding decrease in equity related to our pension and other postretirement plans.

The actuarial assumptions that we use in determining pension and other postretirement liabilities and expenses may differ materially from actual results due to changing market and economic conditions, as well as early withdrawals by terminating plan participants. While we believe that the assumptions used are appropriate, differences in actual experience or changes in assumptions may materially affect our financial position or results of operations. A 25 basis-point increase (decrease) in the discount rate assumption as of December 31, 2014, would cause the pension projected benefit obligation to decrease (increase) by approximately $18.7 million. A 25 basis-point increase (decrease) in the discount rate assumption as of December 31, 2013, would have caused the 2014 pension net periodic benefit cost to decrease (increase) by approximately $2.0 million. Related to other postretirement liabilities and expenses, a 25 basis-point increase (decrease) in the discount rate assumption would not have a material impact on the projected benefit obligation or net periodic benefit cost.

The pension plan's funding policy is to fund at least 100 percent of the pension plan's funding target liability as set forth by the Internal Revenue Service. We contributed $35.0 million to the pension plan in 2014.

As of December 31, 2014, our pension plan portfolio exposures were as follows: equities, 46 percent; bonds and cash, 43 percent; and alternatives, 11 percent.

LIABILITIES BY TYPE AS OF DECEMBER 31, 2014



Liabilities as of December 31, 2014 and 2013:

	2014	2013
	(in millions)	
Accrued personnel and benefit costs	$175.5	$182.1
SEC fee payable	173.8	116.8
Investments payable	87.1	151.5
Deferred liabilities	72.5	78.1
Pension and other postretirement	8.2	9.8
Other current	130.4	121.4
Total current liabilities	647.5	659.7
Pension and other postretirement	215.8	136.6
Deferred liabilities	12.6	17.2
Other long-term	34.8	30.3
Total liabilities	$910.7	$843.8

Liabilities (continued)

Pension and other postretirement (continued): Since 2011, FINRA has offered a defined contribution component to the savings plan to all new hires, in lieu of the pension plan. Also included in this plan are pension plan participants who elected to participate in the defined contribution component instead of the pension plan during 2011. As of December 31, 2014, approximately 37 percent of FINRA's employees participated in the defined contribution component to the savings plan, which, in the long-term, will limit our exposure to market fluctuations as funding is based on age, years of service and base compensation.

Accrued personnel and benefit costs: Accrued personnel and benefit costs decreased primarily due to severance payments made to VRP participants during 2014.

SEC fee payable: Our SEC fee payable increased due to a rate increase from $17.40 to $22.10 per million dollars in transactions.

Investments payable: Investments payable relate to security trades and other investment redemptions or purchases executed on or prior to the balance sheet date, but not yet settled, as we follow trade-date accounting. Year-end balances fluctuate based on the timing and amount of pending investment activity.

Deferred liabilities: Deferred liabilities decreased due to the recognition of deferred contribution revenue attributable to the Foundation's use of restricted funds, which are recognized as grant payments are made or expenses are incurred against those funds.

Other liabilities: Other liabilities consist primarily of accounts payable and accrued expenses; Central Registration Depository (CRD®) system balances; Investment Adviser Registration Depository (IARD™) program surplus; and deferred rental concessions. Other liabilities increased primarily due to an increase in funding of CRD account balances.

STATEMENT OF OPERATIONS

Revenues

Overall, revenues for 2014 increased $95.9 million or 10.6 percent compared to 2013, due primarily to increases in regulatory, user, transparency services and fine revenues, which were partially offset by a decrease in contract services revenues.

Regulatory revenue: Regulatory revenue, including the Trading Activity Fee (TAF), Gross Income Assessment, Personnel Assessment and Branch Office Assessment, is FINRA's primary source of revenue, representing 43 percent of revenues in 2014. These revenues are used to fund FINRA's regulatory activities, including examinations and surveillance; financial monitoring; and FINRA's policymaking, rulemaking and enforcement activities. Increased trading volumes from 2013 to 2014 led to an increase in TAF, which drove the rise in regulatory revenue for the year.

User revenue: An increase in corporate financing fees, driven by an increase in the number of filings year over year, drove the increase in user revenue.

Contract services revenue: Contract services revenue related to the mortgage licensing system decreased due to the client-requested reduction of the development team in an effort to reduce expenses, the absorption of training functions by the client, as well as outsourcing the call center support function to another vendor. Additionally, mortgage exam volume declined year over year, as expected, due to the introduction of uniform state content as part of the National exam in lieu of unique state exams, as well as reaching a steady-state for the National exam.

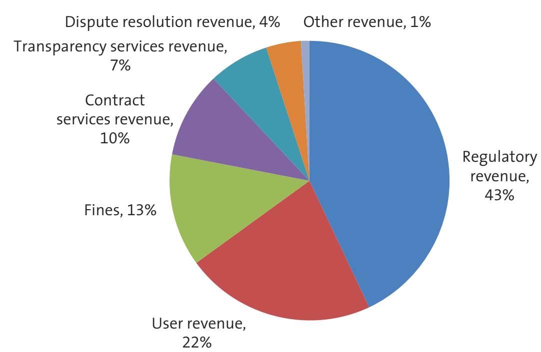
Transparency services revenue: Transparency services revenue increased due to an active participant joining FINRA's Alternative Display Facility® (ADF®) in February 2014. There were no ADF active participants in 2013. The ADF is a quotation collection and trade reporting facility that provides ADF market participants the ability to submit quotations and report transactions in National Market System stocks for distribution to the public and for creating the regulatory audit trail that serves as a foundation for regulation.

Dispute resolution revenue: Dispute resolution revenue consists of fees earned during the arbitration and mediation processes. Dispute resolution revenue remained relatively flat year over year.

Other revenue: Other revenue represents the recognition of deferred contribution revenue attributable to the Foundation's use of funds received from the Global Research Analyst Settlement, which is recognized as grant payments are made or expenses are incurred against those funds. Other revenue was flat year over year.

Fines: While the number of monetary sanctions decreased 14.5 percent from 754 in 2013 to 645 in 2014, the average fine increased from approximately $80,100 in 2013 to approximately $205,600 in 2014. The use of fine monies is limited to capital expenditures and regulatory projects, such as our migration of market regulation to a cloud-based platform and enhancements to our risk-based surveillance and examination programs, which are reported to and approved by our Board of Governors.

REVENUES BY TYPE–2014



Components of total revenue in 2014 and 2013:

	2014	2013
	(in millions)	
Regulatory revenue	$428.1	$414.6
User revenue	216.3	206.4
Contract services revenue	104.7	115.2
Transparency services revenue	67.9	58.4
Dispute resolution revenue	37.5	36.2
Other revenue	9.5	9.6
Total operating revenue	864.0	840.4
Fines	132.6	60.4
Activity assessment (net)	—	(0.1)
Total revenue	$996.6	$900.7

Management Report on Financial Operations (continued)

Expenses

Expenses for 2014 decreased $34.1 million or 3.4 percent compared to 2013, driven primarily by a decrease in compensation and benefits expense which was partially offset by an increase in computer operations and data communications.

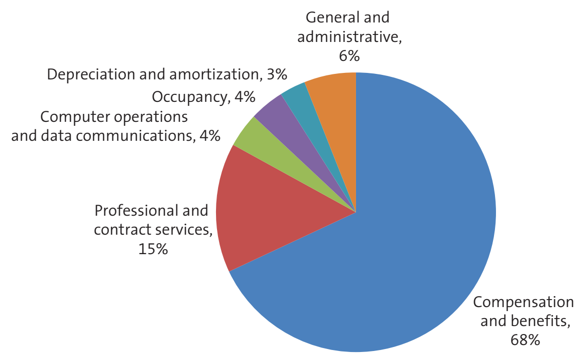
Compensation and benefits: FINRA is largely a service organization. Our expenses are driven by employee-related costs, as we seek to attract, develop and retain a diverse group of talented staff, particularly in the highly specialized areas of regulation and technology, to enable FINRA to carry out its regulatory mandate in today's ever-changing markets. Employee compensation and benefits are FINRA's largest expense, representing 68 percent of total expenses in 2014. Throughout 2014 and 2013, FINRA had approximately 3,400 employees.

The decrease in compensation and benefits expense was due to a $26.4 million year-over-year decline in pension expense driven by the increase in the discount rate from 4 percent for 2013 (effective as of December 31, 2012) to 5 percent for 2014 (effective as of December 31, 2013). Additionally, compensation expense decreased $19.0 million due to vacancies related to the VRP.

Computer operations and data communications: The increase in computer operations and data communications was driven by our migration to cloud computing services in 2014. During the year, we began migrating market surveillance platforms to the cloud in a roughly 30-month roll-out to more efficiently store and process data. The hundreds of surveillance patterns we run must first be written on the new platform, then tested against the old code to ensure similar results. The migration will result in increased processing capacity and more space to store data. While there are initial cash outlays associated with the migration, the move is expected to ultimately save FINRA between $10 million and $20 million annually with initial savings beginning in 2016.

All other expenses: Professional and contract services, occupancy charges, depreciation and amortization, and general and administrative expenses were all relatively flat year over year.

EXPENSES BY TYPE–2014



Components of total expenses in 2014 and 2013:

	2014	2013
	(in millions)	
Compensation and benefits	$652.5	$700.3
Professional and contract services	148.6	145.5
Computer operations and data communications	40.6	31.2
Occupancy	37.5	37.3
Depreciation and amortization	28.8	31.7
General and administrative	56.8	52.9
Total expenses	$964.8	$998.9

Management Report on Financial Operations (continued)

Investment Income and Other Expense

Traditionally, FINRA has relied on investment returns to provide financial resources to supplement operating results. Portfolio returns were relatively flat year over year, at 5.8 percent and 5.7 percent in 2014 and 2013.

Interest and dividend income: Investment interest and dividend income was relatively flat year over year.

Net realized and unrealized investment gains: The increase in net realized and unrealized investment gains in 2014 was primarily driven by the performance of our fixed income portfolio.

Equity earnings from other investments: While the performance of our broadly diversified multi-asset fund was down from last year, the returns were positive and in line with benchmarks.

Other expense: Other expense represents income taxes on unrelated business income earned primarily from mortgage licensing services and certain external client exams.

Components of investment income and other expense in 2014 and 2013:

	2014	2013
	(in millions)	
Interest and dividend income	$26.0	$24.8
Net realized and unrealized investment gains	34.6	2.4
Equity earnings from other investments	37.8	73.6
Other expense	(1.2)	(0.9)
Total investment income and other expense	$97.2	$99.9

CONCLUSION

As noted in the CEO letter, 2014 was a strong year financially for FINRA as increases in revenues were coupled with cost savings driven by pension-related costs and the VRP. We are continually evaluating cost-savings initiatives and reviewing our fee structure to ensure our strong financial position without compromising our regulatory mission.

Management believes that we have sufficient liquidity and working capital to meet current and future operating requirements, from our continued investment in innovative technology, such as cloud computing, to the continued enhancement of our risk-based regulatory program and continued expansion of surveillance coverage across markets and products. We will continue to monitor the changing economic conditions and evaluate their potential impact on our organization.

Management Report on Internal Control Over Financial Reporting

FINRA management is responsible for the preparation and integrity of the consolidated financial statements appearing in our annual report. The consolidated financial statements were prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP) and include amounts based on management's estimates and judgments. FINRA management is also responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. Internal control over financial reporting is a process designed by management to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. GAAP.

FINRA maintains a system of internal control that is designed to provide reasonable assurance as to the fair and reliable preparation and presentation of the consolidated financial statements, as well as to safeguard assets from unauthorized use or disposition that could have a material effect on the consolidated financial statements. FINRA's internal control over financial reporting includes written policies and procedures that 1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of FINRA's assets; 2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with U.S. GAAP, and that receipts and expenditures of FINRA are being made only in accordance with authorizations of FINRA's management and governors; and 3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of FINRA's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements due to error or fraud, including the possibility of the circumvention or overriding of controls. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision of the Chairman and Chief Executive Officer and the Chief Financial Officer, FINRA's management assessed the effectiveness of FINRA's internal control over financial reporting as of December 31, 2014. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control — Integrated Framework* (2013 framework). This evaluation included reviews of the documentation of controls, evaluations of the design effectiveness of controls, tests of the operating effectiveness of controls and a conclusion on management's evaluation. Based on this assessment, we assert that FINRA maintained effective internal control over financial reporting as of December 31, 2014.

FINRA's consolidated financial statements included in this annual report have been audited by Ernst & Young LLP (EY), an independent registered public accounting firm. EY has also issued an attestation report on FINRA's internal control over financial reporting as of December 31, 2014.

June 29, 2015

Richard G. Ketchum
Chairman and Chief Executive Officer

Todd T. Diganci
Executive Vice President and Chief Financial Officer

Audit Committee Report

The Audit Committee of the Board of Governors (Board) assists the Board in fulfilling its responsibility for Board oversight of the quality and integrity of the accounting, auditing and financial reporting practices of FINRA in accordance with the Charter adopted by the Board.

Each member of the Audit Committee is an independent director as defined by the Securities and Exchange Commission's (SEC) Rule 10A-3 under The Securities Exchange Act of 1934, Listing Standards Relating to Audit Committees. In addition, the Audit Committee and Board have determined that John Davidson and Leslie F. Seidman are audit committee financial experts, as defined by the SEC. The Charter gives the Audit Committee responsibility for monitoring the independence of the independent auditor and recommending the appointment of the independent auditor for approval by the Board. It makes clear that the independent auditor is accountable to the Audit Committee and the Board, as representatives of the members and the public. In addition, the Charter and the By-Laws of FINRA make the Chief Audit Executive directly responsible to the Audit Committee. In all respects, the Charter complies with standards applicable to publicly-owned companies. (The Charter for the FINRA Audit Committee is available at: *http://www.finra.org/about/audit-committee-charter*.)

During 2014, the Audit Committee met seven times.

In discharging its oversight responsibility, the Audit Committee reviewed the assessments of audit risk and the audit plans of both the independent and internal auditors. The Audit Committee also discussed with management, the internal auditors, and the independent auditor the quality and adequacy of FINRA's internal controls and the internal audit organization, responsibilities, budget and staffing.

The Audit Committee obtained a written statement from the independent auditor, Ernst & Young LLP (EY), describing all relationships with FINRA. The Audit Committee discussed those relationships and was satisfied that none of the relationships were incompatible with the auditor's independence. The Audit Committee has reviewed and approved all services performed by EY for FINRA and the associated fees before initiation of each engagement. We have summarized such services and fees in the following table:

Independent Registered Public Accountant (IRPA) Fees

	FINRA	
	2014	2013
Audit services (1)	$1,052,675	$1,003,200
Audit-related services (2)	289,800	247,800
Tax services (3)	142,922	235,000
All other services (4)	35,000	—
Total	$1,520,397	$1,486,000

(1) For 2014 and 2013, audit services represent the consolidated financial statement audit and the attestation on internal control.

(2) Audit and attest services provided to FINRA and subsidiaries. 2014 includes one incremental audit of a subsidiary.

(3) Tax services represent fees related to tax return preparation and review services in connection with the 2014 and 2013 Form 990s and related Form 990-Ts, as well as tax compliance, advice and planning.

(4) All other services represent the IRPA's advisory services related to compliance with Federal Acquisition Regulations.

The Audit Committee discussed and reviewed with the independent auditor all communications required under the rules adopted by the Public Company Accounting Oversight Board (PCAOB). Further, the Committee has reviewed and discussed with management and EY, with and without management present, the consolidated audited financial statements as of

Audit Committee Report (continued)

December 31, 2014; management's assessment of the effectiveness of FINRA's internal control over financial reporting; and EY's report on the consolidated financial statements and on FINRA's internal control over financial reporting. Based on those discussions, the Audit Committee recommended to the Board that FINRA's audited consolidated financial statements and related reports on internal control be included in the Annual Report for the year ended December 31, 2014.

Members of the Audit Committee:

Carol Anthony (John) Davidson, Chair
W. Dennis Ferguson
John W. Schmidlin
Robert Scully
Leslie F. Seidman

June 29, 2015

Investment Committee Report

Year Ended December 31, 2014

The FINRA investment portfolio* was created to support FINRA in fulfilling its mission to protect investors and maintain market integrity by providing FINRA with supplemental financial resources. FINRA's investment policy strives to preserve principal, in real terms, while seeking to earn a long-term rate of return commensurate with the degree of risk deemed appropriate for FINRA assets by the Board of Governors (Board). Distributions from the portfolio are subject to prior approval by the Board.

FINRA's portfolio earned 5.8 percent in 2014, including returns from its cash operating fund. Overall, 2014 was a mixed year for diversified portfolios. It was a strong year for U.S. equities and bonds, with most major U.S. equity indices hitting new highs during the year and bond markets posting robust returns, defying expectations. Meanwhile, non-U.S. equities were down for the year, and a precipitous fall in oil prices pushed the commodity sector down, with the Bloomberg Commodity Index losing 17 percent. The chart below shows investment results for FINRA and for several common market benchmarks. As of December 31, 2014, FINRA's investment portfolio, including cash, totaled approximately $1.7 billion. Portfolio liquidity remains strong, with $980 million, or 57 percent, available in 30 days or less as of December 31, 2014.

		Annualized Returns		
	2014	3-Year	5-Year	Inception (1)
FINRA	5.8%	6.2%	4.9%	3.6%
U.S. Consumer Price Index	0.8%	1.3%	1.7%	2.2%
Barclays U.S. Aggregate	6.0%	2.7%	4.4%	4.7%
MSCI ACWI (2)	4.7%	14.7%	9.7%	7.4%

(1) Since inception as of 1/1/04.

(2) The MSCI All Country World Index is a broad, investable index designed to measure the performance of global equity markets.

The FINRA Board is responsible for FINRA's investments and approved the charter that guides the FINRA Investment Committee. The Investment Committee, which is composed of members of the Board and other investment professionals, advises the Board and provides guidance in determining the appropriate policy, guidelines and allocation for FINRA's investments. The FINRA Investment Office is responsible for management of the investments within the framework of the investment policy. FINRA engages investment consultants to support the Investment Office as needed. The Investment Committee met four times during 2014.

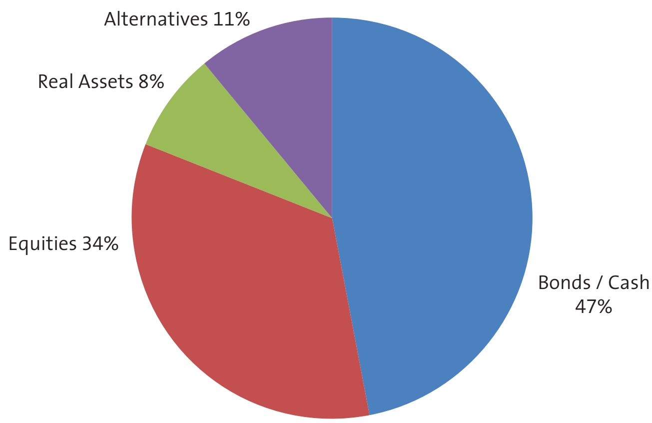
FINRA operates under a low volatility strategy with the objective of creating a lower-risk portfolio than a traditional 60 percent stock/40 percent bond allocation. FINRA's limited-partnership agreement with HighVista II Limited Partnership, a broadly diversified multi-asset fund managed by HighVista Strategies LLC, uses risk-controlled strategies to obtain market and non-correlated exposures. FINRA's fixed income portfolio is a diversified, high-quality investment-grade portfolio managed by Wellington Management Company, LLP (Wellington). Wellington also manages a low-cost, income-oriented equity portfolio for FINRA to further diversify the overall portfolio and reduce interest rate risk. With this policy, FINRA continues to maintain a broadly diversified investment portfolio, representing a wide range of assets and asset classes, in order to attain acceptable levels of risk and return. The Investment Committee reviews the policy annually and recommends changes subject to approval by the Board.

* For the purposes of this Investment Committee report, FINRA's investment portfolio includes investments net of their related receivables and payables on the consolidated balance sheet, and excludes the Foundation's investments and Section 31 fees received but not yet remitted to the SEC.

Investment Committee Report (continued)

The chart below shows portfolio exposures as of December 31, 2014. Market exposures are 47 percent bonds/cash and 34 percent equities. Alternatives, at 11 percent, consist of non-correlated exposures. Real assets, at eight percent, comprise investments in real estate, commodities and Treasury Inflation-Protected Securities (TIPS).

Exposures as of December 31, 2014



FINRA has an Investments Conflicts of Interest policy that establishes the standards governing the separation of investment activities and decisions from FINRA's regulatory operations. As stated in the policy, FINRA's investment strategy limits the direct ownership of investment assets to debt and equity securities, treasury futures and shares in private investment funds not affiliated with a broker-dealer. Within the portion of the portfolio containing debt and equity securities directly owned by FINRA, all securities within the banking and brokerage sectors are held in a blind trust, in order to prohibit any knowledge of or participation in the making of such investments by any FINRA regulatory personnel, and to avoid any appearance of a conflict of interest with FINRA's responsibilities.

All implementation decisions within the portfolio are made by third-party providers, and with respect to internal activities, the oversight and management of the portfolio is performed by the Investment Committee and limited to essential staff only — defined as the CEO, CFO, Investment Office, Corporate General Counsel, Corporate Secretary, Internal Audit and FINRA subject-matter experts assisting the internal auditors and the independent auditor in the performance of audit responsibilities with respect to the FINRA investment portfolio. With those exceptions, no individual in any examination or enforcement arm of the organization has any knowledge of the securities within our investment portfolio.

Members of the Investment Committee:

John J. Brennan, Chair
Richard J. Flannery
William H. Heyman
Richard S. Pechter
Richard C. Romano
Luis M. Viceira

June 29, 2015

Management Compensation Committee Report

Year Ended December 31, 2014

FINRA Compensation Philosophy

FINRA's compensation philosophy is a pay-for-performance model that seeks to achieve pay levels in line with the competitive market while meeting the objectives of attracting, developing and retaining high-performing individuals who are capable of achieving our mission, and to provide rewards commensurate with individual contributions and FINRA's overall performance. This philosophy applies to employees at all levels within the organization.

Benchmarking

FINRA strives to be competitive with the external market when establishing starting pay rates, annual incentives and salary structures. A number of external sources are leveraged to compile market data to establish these structures. FINRA uses specific position survey data to evaluate skill sets and benchmarks the compensation paid to internal talent to determine whether compensation is comparable to the price that those skills would command on the open market. Ultimately, in assessing how to price staff positions, FINRA places an emphasis foremost on the demands and competitiveness of each job to ensure that FINRA is paying equitably for skills, expertise and performance level within the overall context of remaining comparable to the market.

Defining the relevant employment market for competitive compensation benchmarking purposes is a significant challenge for FINRA due to the scarcity of natural comparisons, the uniqueness of functions performed, the need for specialized expertise in financial services and securities law and a constantly changing environment under heightened scrutiny.

As part of its compensation philosophy, FINRA has determined that its competitive compensation positioning for all employees should be considered against a broad section of financial services and capital market companies, as this sector is the most likely from which FINRA will recruit talent, and that would recruit talent away from the Company. FINRA also benchmarks against general industry positions and law departments for jobs that are not unique to the financial services industry. FINRA recognizes that it does not provide fully competitive opportunities, particularly in the equity/long-term incentive area, when compared to certain global investment and securities firms. As a result, benchmarking for key executives will follow the same philosophy but with ranges geared to offset the lack of long-term incentives.

Executive Compensation

The Management Compensation Committee (the Committee), which is composed of solely public members of the Board of Governors (Board), is responsible for approving salary levels and incentive compensation ranges for top-level executives. The Committee determines the incentive compensation awards based on actual performance. In determining salary and incentive compensation, management and the Committee consider operational, strategic and financial factors in addition to individual performance. The salary and incentive compensation recommendations for the CEO are reviewed and approved by the Board annually. The Committee met six times during 2014.

Management Compensation Committee Report (continued)

The Committee has the sole right and responsibility to hire and terminate a compensation consultant. In 2014, as in past years, the Committee engaged Mercer, Inc. (Mercer), an independent third-party compensation consultant, to prepare a compensation study, which included objective analysis of current compensation levels and benchmarking using information from a comparable segment of the market for key executives. To ensure the independence of Mercer:

- throughout the year, Mercer reported directly and exclusively to the Committee;
- no Mercer employee is hired by FINRA;
- Mercer provides no significant services, other than compensation consulting services, to FINRA*;
- any interaction between Mercer and FINRA executive management is limited to discussions on behalf of the Committee and information that is presented to the Committee for approval; and
- fees paid to Mercer for compensation consulting services are reasonable and in line with industry standards.

In determining a benchmarking strategy for key executives, financial services organizations (broker-dealers, investment banks, Federal Reserve banks, commercial banks, insurance companies, exchanges and regulators) were determined to be the most relevant group for comparison purposes. The Committee and Mercer engaged in substantial research and consideration of the functions and operations of several potential comparisons as well as general competitive conditions. Ultimately, the Committee approved a benchmarking process for key executives that focused on the following sources:

- Public comparison group comprised of a blend of financial services organizations engaged in brokerage or other related banking activities.
- Public exchanges and regulators.
- Financial services industry survey data.

The Committee will routinely review the aforementioned sources in determining annual salary and incentive compensation.

*Mercer is a wholly owned subsidiary of Marsh & McLennan Companies, a global professional services firm, as is Marsh USA (Marsh), both of which provide financial and professional insurance brokerage services to FINRA. Fees paid to Marsh for these services are reasonable and in line with industry standards. Through an affinity program with FINRA, Mercer is available to provide FINRA members with insurance products at the option of the FINRA member. FINRA receives a royalty fee from Mercer for products sold to FINRA members, which is used to support the FINRA Investor Education Foundation (the Foundation) to assist the Foundation's mission of providing underserved Americans with the knowledge, skills and tools necessary for financial success throughout life. Royalty fees of $1.3 million and $1.4 million were received and used to support the Foundation during 2014 and 2013.

The Committee does not believe that the relationships with Mercer and Marsh present any independence issues for FINRA.

Management Compensation Committee Report (continued)

Summary Compensation Table

The following table presents actual 2014 and 2013 compensation data in the year paid (all amounts are in dollars). The 2015 salary information represents the base annual salary at which the top ten executives as of June 29, 2015, are compensated. It does not represent 2015 year-to-date earnings. The 2015 incentive compensation amounts represent the actual payment in February 2015 based on 2014 performance. Other amounts, including deferred compensation and other benefits, are not presented for 2015 as these accumulate over the course of the year and final amounts are not determined until year-end. For the compensation details related to the full list of statutory officers and key employees, see FINRA's 2014 Form 990 tax returns.

Name and principal position		Salary (1)	Incentive compensation (2)	Deferred compensation (3)	Other benefits (4)	Total
Richard Ketchum	2015	1,000,000	1,500,000	*	*	2,500,000
Chairman and Chief Executive Officer	2014	1,000,000	1,500,000	361,408	32,420	2,893,828
	2013	1,000,000	1,250,000	335,772	37,984	2,623,756
Todd Diganci	2015	550,000	700,000	*	*	1,250,000
EVP and Chief Financial Officer	2014	544,231	680,000	40,686	23,852	1,288,769
	2013	500,000	680,000	38,339	24,049	1,242,388
Steven Randich	2015	500,000	565,000	*	*	1,065,000
EVP and Chief Information Officer	2014	500,000	525,000	141,002	36,111	1,202,113
	2013	394,231	—	102,950	17,644	514,825
Robert Colby	2015	500,000	525,000	*	*	1,025,000
EVP and Chief Legal Officer	2014	500,000	510,000	139,355	18,511	1,167,866
	2013	500,000	300,000	126,553	21,867	948,420
Susan Axelrod	2015	450,000	500,000	*	*	950,000
EVP, Regulatory Operations	2014	447,115	475,000	128,527	45,088	1,095,730
	2013	391,923	425,000	156,590	39,680	1,013,193
J. Bradley Bennett	2015	435,000	490,000	*	*	925,000
EVP, Enforcement	2014	435,000	490,000	122,758	8,938	1,056,696
	2013	435,000	450,000	165,466	13,759	1,064,225
Thomas Gira	2015	425,000	500,000	*	*	925,000
EVP, Market Regulation	2014	422,115	475,000	81,964	39,654	1,018,733
	2013	400,000	455,000	77,193	29,705	961,898
Steven Joachim	2015	400,000	475,000	*	*	875,000
EVP, Transparency Services	2014	396,538	450,000	64,761	47,426	958,725
	2013	370,000	485,000	62,544	37,962	955,506
F. Gregory Ahern	2015	400,000	410,000	*	*	810,000
EVP, Corporate Communications and	2014	400,000	400,000	122,916	35,474	958,390
Government Relations	2013	400,000	100,000	98,154	110,993	709,147
Cameron Funkhouser	2015	375,000	420,000	*	*	795,000
EVP, Office of Fraud Detection	2014	372,115	390,000	70,337	27,409	859,861
and Market Intelligence	2013	348,269	340,000	681,111	29,410	1,398,790

* 2015 deferred compensation and other benefits cannot be fully determined until the end of the calendar year, and are therefore not included in the above table. The 2013 compensation for Mr. Randich represents a partial year of employment.

Management Compensation Committee Report (continued)

1 Salary is paid bi-weekly, one week in arrears. 2015 salary information represents the executives' current base annual rate of pay as of June 29, 2015.

2 Incentive compensation is paid after the close of the calendar year based on the prior year's performance. Payments are reflected in the table above in the year paid, consistent with FINRA's reporting in its Form 990 tax returns. Thus, the amount presented in 2015 was paid in February 2015, based on 2014 performance.

3 Deferred compensation includes earnings and accruals in supplemental executive retirement plans, which are not available to all employees. Mr. Diganci, Mr. Gira, Mr. Joachim and Mr. Funkhouser participate in FINRA's supplemental defined benefit retirement plan, which is now closed to new participants. The remaining listed executives are participants in the supplemental defined contribution retirement plan. Deferred compensation also includes employer-funded 401(k) matching contributions and the accrual of benefits in FINRA's employee retirement plans. The 401(k) and retirement plans are generally available to all employees.

4 Other benefits include taxable and non-taxable benefits such as employer paid health, life and disability insurance, which are generally available to all employees. They also include parking, travel subsidies, tax gross-ups and other miscellaneous fringe benefits.

Components of Compensation

Direct Compensation

- Base salaries consist of job grade structures to provide for appropriate flexibility in hiring and retention. Actual salaries are based on job content, individual performance and relevant experience levels, and may fall above or below competitive levels.
- Incentive compensation is an additional "at-risk" compensation that is performance-based and determined in relation to individual achievements and FINRA's overall performance. The size of the actual award varies based on goal achievement, performance, grade level and degree of responsibility within the organization. If awarded, it is paid as a lump sum in the following year.

Indirect Compensation

- Supplemental retirement benefits are provided for top executives and are either defined benefit or defined contribution based on employment start date. These plans are non-qualified and are based on salary, officer level, and depending on officer level a portion of incentive compensation.
- Employee and family health, life and other insurance, pension and 401(k) deferral and matching programs, health club subsidies and other benefits are generally available to all employees. Additionally, certain executives receive miscellaneous taxable fringe benefits that may include parking, travel subsidies and similar minor items.

Members of the Management Compensation Committee:

William H. Heyman, Chair
Carol Anthony (John) Davidson
Shelly Lazarus
Joel Seligman

June 29, 2015

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

Board of Governors of

Financial Industry Regulatory Authority, Inc.

We have audited the Financial Industry Regulatory Authority, Inc.'s (FINRA) internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). FINRA's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and governors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, FINRA maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of FINRA as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for the years then ended and our report dated June 29, 2015 expressed an unqualified opinion thereon.

Ernst + Young LLP

McLean, Virginia
June 29, 2015

Report of Independent Registered Public Accounting Firm

Board of Governors of

Financial Industry Regulatory Authority, Inc.

We have audited the accompanying consolidated balance sheets of the Financial Industry Regulatory Authority, Inc. (FINRA) as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of FINRA at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), FINRA's internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated June 29, 2015 expressed an unqualified opinion thereon.

Ernst + Young LLP

McLean, Virginia
June 29, 2015

FINRA Consolidated Balance Sheets

(In millions)

	December 31,	
	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	$ 480.3	$ 376.6
Investments:		
Trading, at fair value	821.3	728.3
Available-for-sale, at fair value	7.2	10.7
Foundation available-for-sale, at fair value	26.6	28.8
Receivables, net	139.4	107.0
Investments receivable	3.5	10.0
Other current assets	25.8	31.4
Total current assets	1,504.1	1,292.8
Property and equipment:		
Land, buildings and improvements	121.0	119.1
Data-processing equipment and software	256.1	254.7
Furniture, equipment and leasehold improvements	120.0	121.9
	497.1	495.7
Less accumulated depreciation and amortization	(382.0)	(363.6)
Total property and equipment, net	115.1	132.1
Goodwill and other intangible assets, net	23.6	26.0
Other investments	737.3	799.7
Other assets	5.0	6.0
Total assets	$2,385.1	$2,256.6

See accompanying notes.

FINRA Consolidated Balance Sheets (continued)

(In millions)

	December 31,	
	2014	2013
Liabilities and equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 34.3	$ 31.8
Accrued personnel and benefit costs	183.7	191.9
Deferred revenue	70.1	71.4
Deferred contribution income	2.4	6.7
Deposits and renewals	89.9	84.3
Investments payable	87.1	151.5
Other current liabilities	6.2	5.3
SEC fee payable	173.8	116.8
Total current liabilities	647.5	659.7
Accrued pension and other postretirement benefit costs	215.8	136.6
Deferred revenue	12.6	14.3
Deferred contribution income	—	2.9
Other liabilities	34.8	30.3
Total liabilities	910.7	843.8
Equity	1,615.5	1,486.5
Unrealized gain on available-for-sale investments	3.2	3.2
Net unrecognized employee benefit plan amounts	(144.3)	(76.9)
Total equity	1,474.4	1,412.8
Total liabilities and equity	$2,385.1	$2,256.6

See accompanying notes.

FINRA Consolidated Statements of Operations

(In millions)

	Years Ended December 31, 2014	2013
Revenues		
Operating revenues		
Regulatory fees, net of firm rebates of $20.0 in 2014 and 2013	$ 428.1	$ 414.6
User fees	216.3	206.4
Contract services fees	104.7	115.2
Transparency services fees	67.9	58.4
Dispute resolution fees	37.5	36.2
Other	9.5	9.6
Total operating revenues	864.0	840.4
Fines	132.6	60.4
Activity assessment	472.0	379.9
Total revenues	1,468.6	1,280.7
Activity assessment cost of revenues	(472.0)	(380.0)
Net revenues	996.6	900.7
Expenses		
Compensation and benefits	652.5	700.3
Professional and contract services	148.6	145.5
Computer operations and data communications	40.6	31.2
Occupancy	37.5	37.3
Depreciation and amortization	28.8	31.7
General and administrative	56.8	52.9
Total expenses	964.8	998.9
Interest and dividend income	26.0	24.8
Operating income (loss)	57.8	(73.4)
Other income (expense)		
Net realized and unrealized investment gains	34.6	2.4
Equity earnings from other investments	37.8	73.6
Other expense	(1.2)	(0.9)
Net income	$ 129.0	$ 1.7

See accompanying notes.

FINRA Consolidated Statements of Comprehensive Income (Loss)

(In millions)

	Years Ended December 31,	
	2014	2013
Net income	$129.0	$ 1.7
Change in unrealized gain or loss on available-for-sale investments	—	1.3
Employee benefit plan adjustments	(67.4)	168.5
Comprehensive income	$ 61.6	$171.5

See accompanying notes.

FINRA Consolidated Statements of Changes in Equity

(In millions)

		Accumulated Other Comprehensive Income (Loss)		
	Equity	Unrealized Gain on Available - for-Sale Investments	Net Unrecognized Employee Benefit Plan Amounts	Total
Balance, January 1, 2013	$1,484.8	$1.9	$(245.4)	$1,241.3
Comprehensive income	1.7	1.3	168.5	171.5
Balance, December 31, 2013	1,486.5	3.2	(76.9)	1,412.8
Comprehensive income	129.0	—	(67.4)	61.6
Balance, December 31, 2014	$1,615.5	$3.2	$(144.3)	$1,474.4

See accompanying notes.

FINRA Consolidated Statements of Cash Flows

(In millions)

	Years Ended December 31,	
	2014	2013
Reconciliation of net income to cash provided by operating activities		
Net income	$129.0	$ 1.7
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	28.8	31.7
Net realized and unrealized investment gains	(34.6)	(2.4)
Distributed and undistributed equity earnings from other investments	62.2	(73.6)
Bad debt expense	4.0	4.5
Net change in operating assets and liabilities, net of acquisitions and dispositions:		
Receivables, net	(36.4)	9.5
Other current assets	4.9	2.5
Other assets	3.3	11.3
Accounts payable and accrued expenses	2.1	(1.2)
Accrued personnel and benefit costs	(8.2)	38.0
Deferred revenue	(3.0)	(4.5)
Deferred contribution income	(7.2)	(7.5)
Deposits and renewals	5.6	14.8
SEC fee payable	57.0	(7.4)
Other current liabilities	0.9	(0.9)
Accrued pension and other postretirement benefit costs	11.8	15.2
Other liabilities	4.5	(0.5)
Net cash provided by operating activities	$224.7	$ 31.2

See accompanying notes.

FINRA Consolidated Statements of Cash Flows (continued)

(In millions)

	Years Ended December 31,	
	2014	2013
Cash flow from investing activities		
Net purchases of trading securities	$(115.3)	$ (25.4)
Proceeds from redemptions of available-for-sale investments	11.1	33.9
Purchases of available-for-sale investments	(2.4)	(6.7)
Return of capital and proceeds from redemptions from other investments	0.3	4.1
Net purchases of property and equipment	(7.7)	(10.3)
Net cash used in investing activities	(114.0)	(4.4)
Cash flow from financing activities		
Change in donor-restricted cash	(7.0)	(7.1)
Net cash used in financing activities	(7.0)	(7.1)
Increase in cash and cash equivalents	103.7	19.7
Cash and cash equivalents at beginning of year	376.6	356.9
Cash and cash equivalents at end of year	$ 480.3	$376.6

See accompanying notes.

FINRA 2014 Notes to Consolidated Financial Statements

1. ORGANIZATION AND NATURE OF OPERATIONS

References to the terms "we," "our," "us," "FINRA" or the "Company" used throughout these Notes to Consolidated Financial Statements refer to the Financial Industry Regulatory Authority, Inc. (FINRA), a Delaware corporation, and its wholly owned subsidiaries. FINRA wholly owns the following significant subsidiaries: FINRA Regulation, Inc. (FINRA REG), FINRA Dispute Resolution, Inc. (FINRA DR) and FINRA Investor Education Foundation (the Foundation). The Foundation is a tax-exempt membership corporation incorporated in the State of Delaware, with FINRA as the sole member.

We are the largest independent regulator of securities firms doing business with the public in the United States. We regulate the activities of the U.S. securities industry and perform market regulation pursuant to our own statutory responsibility and under contract for the New York Stock Exchange LLC (NYSE), NYSE Arca, Inc. (NYSE Arca), NYSE MKT LLC (NYSE MKT), the NASDAQ OMX Group, Inc. (NASDAQ), NASDAQ OMX BX, Inc. (Boston), NASDAQ OMX PHLX LLC (Philadelphia), BATS Global Markets, Inc. (BZX and BYZ), the Direct Edge exchanges (EDGA and EDGX), the International Securities Exchange and other exchanges. On December 19, 2014, FINRA signed an agreement with the Chicago Board Options Exchange and the C2 Options Exchange (CBOE and C2) to provide regulatory services to these exchanges starting January 1, 2015. We also regulate the over-the-counter (OTC) securities markets for listed and unlisted equities and the OTC markets for corporate bonds, asset-backed instruments, certain government agency instruments, municipal securities and other fixed income instruments.

We provide arbitration and mediation services to assist in the resolution of monetary and business disputes between and among investors, securities firms and registered representatives. We also provide dispute resolution services for several exchanges through contractual agreements, thereby offering consistent procedures and the uniformity of a single forum for the resolution of securities-industry related disputes.

We provide technology-driven registration, testing and continuing education, and other regulatory services, as well as essential operations and support services to firms, other self-regulatory organizations (SROs), the Securities Exchange Commission (SEC), the North American Securities Administrators Association, state regulators, the investing public, the Conference of State Bank Supervisors and its wholly-owned subsidiary, the State Regulatory Registry LLC (SRR). We developed and continue to enhance BrokerCheck, a free tool that helps investors research the professional backgrounds of current and former FINRA-registered brokerage firms and brokers, as well as investment adviser firms and representatives.

We are committed to ensuring that investors and market participants have access to trade information so they can more effectively access securities prices and valuations through the management and operation of FINRA's OTC market transparency facilities. These facilities include the Trade Reporting and Compliance Engine (TRACE) for fixed income securities, the OTC Reporting Facility (ORF) for equity securities not listed on an exchange and Trade Reporting Facilities (TRFs), operated in partnership with NYSE and NASDAQ, for OTC trading in equity securities that are listed on an exchange. In this capacity, we provide the public and professionals with timely quotes and trade information for equity and debt securities.

The Foundation provides underserved Americans with the knowledge, skills and tools necessary for financial success throughout life. The Foundation funds innovative research and educational projects aimed at segments of the investing public who could benefit from additional resources.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and include the accounts of FINRA and its wholly owned subsidiaries. We have eliminated all intercompany balances and transactions in consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES

The preparation of these consolidated financial statements requires management to make estimates and assumptions, including estimates of fair value of investments, valuation of investments and assumptions related to our benefit plans, allowances for uncollectible accounts, and the estimated service periods related to our recognition of certain revenue, that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could materially differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include demand cash, cash held in banks and all non-restricted, highly liquid investments with original maturities of 90 days or less when acquired.

INVESTMENTS

Debt and Marketable Equity Securities

At the time of purchase, we classify individual securities as trading, available-for-sale or held-to-maturity based on the type of security and our intent and ability to sell or to hold the securities. We have designated our investments in debt and marketable equity securities as either trading or available-for-sale. Trading securities are carried at fair value, with changes in fair value recorded as a component of net realized and unrealized investment gains in the consolidated statements of operations. We present cash flows from purchases and sales of trading securities as investing activities based on the nature and purpose for which the securities were acquired. We record available-for-sale securities at fair value and recognize temporary changes in fair value as unrealized gains as a separate component of other comprehensive income.

Fair value is determined based on quoted market prices, when available, or on estimates provided by external pricing sources or dealers who make markets in such securities. Realized gains and losses on sales of securities are included in earnings using the average cost method. Investment receivables or payables relate to security trades and other investment redemptions or purchases executed on or prior to the balance sheet date, but not yet settled, as we follow trade-date accounting.

Other Investments

FINRA has residual investments in hedge funds, which we account for under the equity method. We are also a limited partner in a private investment fund. We account for our private investment fund under the equity method based on our relative ownership interest in the partnership. The application of the equity method to our investments in hedge funds and the private investment fund, including our related equity earnings, retains the investment company accounting applied by such funds.

Other-Than-Temporary Impairment

FINRA periodically monitors and evaluates the realizability of its available-for-sale and equity method investments. When assessing realizability, including other-than-temporary declines in value, we consider such factors as the extent of the decline in value, the duration of unrealized losses, the potential for recovery in the near term and the probability that we will sell an equity method investment at an amount different from the net asset value of our ownership interest. We also review the financial statements of our equity method investments for potential indicators of impairment. If events and circumstances indicate that a decline in the value of these assets has occurred and is deemed other-than-temporary, the carrying value of the investment is reduced to its fair value and the impairment is charged to earnings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECEIVABLES, NET

The Company's receivables are primarily concentrated with FINRA-registered firms, associated persons, NYSE Euronext, NASDAQ, BATS and other exchanges. The consolidated financial statements present receivables net of an allowance for uncollectible accounts. As of December 31, 2014 and 2013, an allowance for uncollectible accounts of $11.4 million and $20.8 million is presented within receivables, net in the accompanying consolidated balance sheets. The decrease in the allowance as of December 31, 2014, was due to a change in policy. We calculate the allowance based on the age, source of the underlying receivable and past collection experience. We maintain the allowance at a level that management believes to be sufficient to absorb estimated losses inherent in our accounts receivable portfolio. The allowance as of December 31, 2014 and 2013, primarily relates to fines and arbitration activities. The allowance is increased by the provision for bad debts, which is charged against operating results and decreased by the amount of charge-offs, net of recoveries. We base the amount charged against operating results on several factors, including a periodic assessment of the collectibility of each account. In circumstances where a specific firm's inability to meet its financial obligations is known (*e.g.*, bankruptcy filings), we record a specific provision for bad debts to reduce the receivable to the amount we reasonably believe will be collected.

PROPERTY AND EQUIPMENT

FINRA records property and equipment at cost less accumulated depreciation. We expense repairs and maintenance costs as incurred. We calculate depreciation using the straight-line method over estimated useful lives ranging from 10 to 40 years for buildings and improvements, two to five years for data-processing equipment and software, and five to 10 years for furniture and equipment. We amortize leasehold improvements using the straight-line method over the term of the applicable lease, including any extension periods at our option. Depreciation and amortization expense for property and equipment, including amortization of capitalized software costs, totaled $25.2 million and $27.9 million for 2014 and 2013.

SOFTWARE COSTS

FINRA capitalizes internal computer software development costs incurred during the application development stage. Computer software costs incurred prior to or subsequent to the application development stage are charged to expense as incurred. We capitalize significant purchased application software and operational software programs that are an integral part of computer hardware and amortize them using the straight-line method over their estimated useful life, generally three years. We expense all other purchased software as incurred.

The consolidated financial statements reflect unamortized, capitalized software development costs of $8.0 million and $12.9 million as of December 31, 2014 and 2013, within total property and equipment, net in the consolidated balance sheets. Net additions to capitalized software were $1.0 million and $2.7 million in 2014 and 2013. Amortization of capitalized internal computer software costs totaled $5.8 million and $4.5 million for 2014 and 2013, and is included in depreciation and amortization in the consolidated statements of operations.

IMPAIRMENT OF LONG-LIVED ASSETS

We review our long-lived assets for impairment annually. In the event facts and circumstances indicate that long-lived assets or other assets may be impaired, we perform an evaluation of recoverability that compares the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount. If the evaluation failed the recoverability test, we would then prepare a discounted cash flow analysis to estimate fair value and the amount of any impairment. In 2014 and 2013, there were no indicators of long-lived asset impairment, and no impairment charges were recognized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEFERRED REVENUE

Deferred revenue represents cash received for which we have not yet provided the related services. Included in deferred revenue is the unearned portion of mediation fees, arbitration fees, registration fees and firm application fees. We recognize revenue from the upfront initial components of these fees on a straight-line basis over estimated service periods. The estimated service periods for mediation fees, arbitration fees, registration fees and firm application fees, based on historical experience, are four months, 14 months, four years and 12 years, respectively.

GLOBAL RESEARCH ANALYST SETTLEMENT

On September 2, 2005, the Federal District Court for the Southern District of New York (the Court) issued an order (the Order) approving the SEC's new investor education plan, whereby a portion of funds collected in connection with the Global Research Analyst Settlement (the GRA Settlement) and earmarked by the Court for investor education, less expenses previously approved by the Court, would be remitted to the Foundation. Pursuant to the final judgments against each of the defendants under the GRA Settlement, the Foundation received a total of $55.0 million.

As disclosed in Note 1, the Foundation is a consolidated subsidiary of FINRA. At the consolidated level, FINRA presents the amounts the Foundation received in relation to the Order, including interest and dividends earned on these funds, as deferred contribution income in the consolidated balance sheets, and recognizes the related revenue, net of interest and dividends earned on the funds, as the Foundation makes grant payments and incurs expenses pursuant to the guidelines in the Order. For the periods ended December 31, 2014 and 2013, the Foundation incurred grant payments and expenses against the GRA Settlement funds of $7.2 million and $7.4 million.

Included in other current assets and other long-term assets in the consolidated balance sheets are funds from the GRA Settlement, including the interest earned on these funds. The GRA Settlement funds are included in other assets because their use is restricted to the Foundation. The Foundation invests the GRA Settlement funds in a U.S. Treasury money market fund in accordance with the terms of the GRA Settlement, which stipulates that funds received must be invested in money market funds or securities with maturities of less than six months and backed by the full faith and credit of the federal government. The current portion of the GRA Settlement funds as of December 31, 2014, was $3.2 million. There is no long-term portion of the GRA Settlement funds as of December 31, 2014. The current and long-term portions of the GRA Settlement funds as of December 31, 2013, were $6.7 million and $3.4 million.

Under the terms of the Order, to the extent that any of the GRA Settlement funds are not used by the Foundation within 10 years of the date of the Order, FINRA may be required to return any unused funds. Additionally, in the event of a proposed dissolution of the Foundation, the SEC shall file an application with the Court setting forth a plan for the disposition of any remaining GRA Settlement funds in the Foundation. As of March 31, 2015, all such funds have been expended.

DEPOSIT AND RENEWAL LIABILITIES

FINRA's deposit and renewal liabilities primarily represent deposits into our Central Registration Depository (CRD) system. FINRA-registered firms use these deposits to pay for services, including registration fees charged by states and other SROs.

OTHER LIABILITIES

FINRA's other liabilities include amounts associated with the Investment Adviser Registration Depository (IARD) program.

FINRA administers the IARD program. IARD is an electronic filing system for investment advisers regulated by the SEC under the Investment Advisers Act of 1940, and by the states, represented by the North American Securities Administrators Association. The IARD system collects and maintains the registration and disclosure information for investment advisers and their associated persons. IARD fees received but not yet earned are included in deferred revenue in the consolidated balance sheets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As administrator, FINRA is required to monitor the cumulative surplus of the IARD program in accordance with the agreement with the SEC dated July 22, 2014. The SEC will determine the distribution of the cumulative surplus attributable to filings by SEC-registered investment advisers upon termination of the agreement for the benefit of IARD filers. FINRA has applied the same principles of the agreement with the SEC to the cumulative surplus attributable to filings by state-registered investment advisers.

As of December 31, 2014 and 2013, FINRA recognized the cumulative surplus for the IARD program in its consolidated financial statements as follows:

	As of December 31,	
	2014	2013
	(in millions)	
Current deferred revenue	$ 3.3	$ 3.3
Non-current deferred revenue	0.3	0.4
Other long-term liabilities	11.6	10.0
Total	$15.2	$13.7

REVENUE RECOGNITION AND COST OF REVENUE

Revenues are generally measured by an exchange of values and recognized when: (1) there is persuasive evidence of an arrangement; (2) services have been rendered and payment has been contractually earned; (3) the fee is fixed or determinable; and (4) collectability is reasonably assured. Our recognition policy by type of fee is described in the paragraphs below.

Regulatory Fees

Regulatory fees include assessments for the supervision and regulation of firms through examination, policy making, rulemaking and enforcement activities. Regulatory fees are recorded net of any firm rebates. The primary regulatory fees are the Trading Activity Fee (TAF), Gross Income Assessment (GIA), Personnel Assessment (PA) and Branch Office Assessment (BOA). The TAF is calculated on the sell side of all transactions by firms in all covered securities regardless of where the trade is executed and is assessed directly on the firm responsible for clearing the transaction. Firms self-report the TAF to us, and we recognize the income in the month the transactions occur. As the TAF is a self-reported revenue stream for us, subsequent adjustments may occur. We recognize these adjustments as revenue adjustments in the period they become known to us. The GIA, PA and BOA represent annual fees charged to firms and representatives. We recognize these fees ratably over the applicable annual period.

User Fees

User fees are charged for initial and annual registrations, qualification examinations, FINRA-sponsored educational programs and conferences, reviews of advertisements and corporate filings (corporate financing fees). FINRA charges registration fees for all registered representatives and investment advisers. First-year registration and application fees consist of two deliverables that we account for as separate units of accounting: upfront registration delivered at inception and an ongoing service obligation for the remainder of that calendar year. We allocate arrangement consideration to upfront registrations based on our estimates of selling price. We estimate the selling prices of upfront registrations based on our internal cost structure, pricing practices and objectives, and historical prices. We allocate arrangement consideration to the remaining service obligation based on vendor-specific objective evidence of the pricing for these services. Upfront registration revenue is recognized over the estimated service period for individual representatives (four years) and firms (12 years), while the remaining service obligation revenue is recognized ratably over the related remaining annual period. While the pricing model currently in use captures all critical variables, unforeseen changes due

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

to external market forces may result in the revision to some of our inputs. These modifications may result in the allocation of consideration in future periods that differs from the allocation presently in use. Absent a significant change in the pricing inputs, future changes in the pricing model are not expected to materially impact our allocation of arrangement consideration.

Qualification fees consist of examination and continuing education fees. We recognize qualification fees as we administer examinations or continuing education programs. FINRA-sponsored meeting and conference fees include fees paid by financial services industry participants for participating in our educational programs. We recognize these fees when the program or conference takes place. Advertising fees are charged for our review of firms' communications to ensure that they are fair, balanced and not misleading. We recognize advertising fees as revenue when our review is completed. Corporate financing fees are charged for our review of proposed public offerings. We recognize corporate financing fees when our review is completed.

Contract Services Fees

Contract services fees represent amounts charged for regulatory services provided primarily to the NASDAQ family of markets, the NYSE family of markets, the BATS family of markets and other exchanges, as well as the TRFs, for services including surveillance reviews, investigations, examinations and the disciplinary process. On December 19, 2014, FINRA signed an agreement with CBOE and C2 to provide market surveillance, financial surveillance, examinations, investigations and disciplinary services to these exchanges starting January 1, 2015. Contract services fees also include fees for the mortgage licensing system FINRA developed and deployed to SRR. We recognize contract services fees as the services are provided.

Transparency Services Fees

Transparency services fees are charged for the use of the TRACE and Alternative Display Facility (ADF). In addition, fees are charged for our ORF service for the reporting of trades and comparison in certain OTC equity securities. TRACE fees include market data fees as well as fees charged on secondary market transactions in eligible fixed income securities reported to us. ADF fees include market data fees as well as fees for posting quotes and comparison. The OTC Bulletin Board® (OTCBB®) is a regulated quotation service in which fees are charged for a variety of services related to the display of real-time quotes in OTC equity securities that are eligible for quotation on the OTCBB. In addition, fees are earned for the sale of market data from the OTCBB and the ORF. We recognize transparency services fees as the transactions occur or when the market data is sold.

Dispute Resolution Fees

FINRA earns fees during the arbitration and mediation processes. Certain arbitration fees, such as initial, counterclaim, cross-claim and other filing fees, and surcharge fees, relate to the entire period covered by an arbitration case and are recognized as revenue over the average life of an arbitration case (14 months). Mediation filing fees are recognized over the average life of a mediation case (four months). All other arbitration- and mediation-related fees, such as pre-hearing and hearing processing fees, adjournment fees, hearing session fees and mediation session fees, which are event-driven, are recognized as the service is provided. Dispute resolution fees also include arbitrator and mediator application fees that are recognized as the service is provided.

Fines

Fines represent sanctions for rule violations, which FINRA recognizes upon issuance of a written consent or disciplinary decision. We do not view fines as part of our operating revenues. FINRA limits the use of fine monies to capital expenditures and regulatory projects, which are reported to our Board of Governors (Board).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Activity Assessment Revenues and Cost of Revenues

FINRA, as an SRO, pays certain fees and assessments to the SEC pursuant to Section 31 of the Securities Exchange Act of 1934. These fees are designed to recover costs incurred by the government for the supervision and regulation of securities markets and securities professionals, and are calculated based on the aggregate dollar amount of sales of covered securities transacted by or through any firm other than on a national securities exchange. Such covered transactions are reported to us through the ADF, TRFs and ORF. We remit these SEC fees to the U.S. Treasury semiannually, in March and September.

We recover the cost of the Section 31 fees and assessments through an activity assessment, charged to the firm responsible for clearing the transaction, based on the aggregate dollar amount of sales of covered securities transacted by or through any firm other than on a national securities exchange. The assessments billed to securities firms are recognized when the transactions are reported. As of December 31, 2014 and 2013, we had $47.1 million and $31.7 million of SEC fee receivables presented within receivables, net in the accompanying consolidated balance sheets. FINRA, as the primary obligor to the SEC, reports the activity assessment on a gross basis within revenues. Amounts due to the SEC are reported as a cost of revenue. We report amounts pending remittance to the SEC in SEC fee payable in the accompanying consolidated balance sheets.

Activity assessment revenues and cost of revenues are driven by third-party providers and securities firms reporting activity in a complete, accurate and timely manner. As a result, subsequent adjustments may occur. We recognize any resulting activity assessment adjustments in the period they become known to us.

Interest and Dividend Income

FINRA recognizes interest income from cash, trading investments, and available-for-sale investments as it is earned. Dividend income is recognized on the ex-dividend date.

PENSION AND OTHER POSTRETIREMENT LIABILITIES

FINRA provides two non-contributory defined benefit pension plans for the benefit of eligible employees. The non-contributory defined benefit plans consist of a qualified Employees Retirement Plan (ERP) and a non-qualified Supplemental Executive Retirement Plan (SERP). Both plans are now closed to new participants. We also provide an employer-funded defined contribution Retiree Medical Account Plan (RMA Plan) to assist our retirees with the cost of health care expenses during retirement. Under the RMA Plan, Retiree Medical Accounts are created for eligible employees and retirees, and fixed annual credits are applied to those accounts for each year of FINRA service beginning at age 40. In calculating the expense and liability related to all of the abovementioned plans, we use several statistical and other factors, which attempt to anticipate future events. Key factors include assumptions about the expected rates of return on plan assets and the discount rate as determined by FINRA, within certain guidelines, as well as assumptions regarding future salary increases, mortality, turnover, retirement ages and the medical expense trend rate. We consider market conditions, including changes in investment returns and interest rates, in making these assumptions. The discount rate used in the calculations is developed using a composite yield curve analysis based on a portfolio of high-quality, non-callable, marketable bonds. We determine the long-term rate of return based on analysis of historical and projected returns as prepared by our actuary and external investment consultant. FINRA's Pension/401(k) Plan Committee (the Pension Committee) reviews and advises FINRA management on both the expected long-term rate of return and the discount rate assumptions. Amortization of net gain or loss included in accumulated other comprehensive income (loss) reflects a corridor based on 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets as of the beginning of the plan year, and is included as a component of net periodic pension cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES

FINRA, FINRA REG and FINRA DR are tax-exempt organizations under Internal Revenue Code (IRC) Section 501(c)(6). The Foundation is a tax-exempt organization under IRC Section 501(c)(4). However, unrelated business income activities are taxed at normal corporate rates to the extent that they result in taxable net income. We determine deferred tax assets and liabilities based on differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities (*i.e*., temporary differences). We measure these assets and liabilities at the enacted rates that we expect will be in effect when we will realize these differences. We also determine deferred tax assets based on the amount of net operating loss carryforwards. If necessary, we establish a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject us to concentrations of credit risk consist of cash and cash equivalents, trading investments, other investments and accounts receivable. We do not require collateral on these financial instruments.

We maintain cash and cash equivalents in excess of federally insured limits, principally with financial institutions located in the U.S. Risk on accounts receivable is reduced by the number of entities comprising our member firm base and through ongoing evaluation of collectibility of amounts owed to us. We use outside investment managers to manage our investment portfolio and a custody agent, a publicly traded company headquartered in New York, to hold our trading securities.

We maintain a broadly diversified investment portfolio, representing a wide range of assets and asset classes, in order to attain acceptable levels of risk and return. Our investment portfolio, excluding Foundation investments, consists of investments in debt securities, equity securities and private investments. Our limited partnership investment represents approximately 46 percent of our total invested assets, excluding cash, as of December 31, 2014. The Foundation's investment portfolio consists of mutual funds and a commingled fund.

The Company attempts to minimize credit risk by monitoring the creditworthiness of the financial institutions with which it transacts business.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014–09, *Revenue from Contracts with Customers (Topic 606)*. The ASU provides that a company recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Accordingly, companies will need to use more judgment and make more estimates which may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The ASU is effective for FINRA on January 1, 2018; however, as a nonpublic entity, we may early adopt on January 1, 2017. We are currently assessing the potential impact that the ASU will have on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015–05, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350–40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. Originally proposed in August 2014, the ASU addresses the lack of explicit accounting guidance concerning how customers account for fees paid to a cloud service provider based upon whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the accounting for the software license would be consistent with other software licenses. If a cloud computing arrangement does not include a software license, the arrangement would be accounted for as a service contract. The ASU does not change existing accounting guidance for software licenses or service contracts. The ASU is effective for FINRA on January 1, 2016, and can be adopted either retrospectively or prospectively to all arrangements entered into or materially modified after the effective date. We are currently assessing the potential impact that the ASU will have on our consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following accounting pronouncements were also recently issued:

- ASU No. 2013–11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*; and
- ASU No. 2014–15, *Presentation of Financial Statements—Going Concern (Subtopic 205–40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*.

We have assessed these pronouncements and determined that they do not have any material impact on our consolidated results of operations or financial position.

3. DEFERRED REVENUE

The following is a summary of amounts that we included in current and non-current deferred revenue as of December 31, 2014, and the years over which we will recognize those amounts:

	Registration	Arbitration	Annual and Other	Total
		(in millions)		
Year ending December 31,				
2015	$ 7.3	$5.0	$57.8	$70.1
2016	5.2	—	—	5.2
2017	3.4	—	—	3.4
2018	1.4	—	—	1.4
2019 and thereafter	2.6	—	—	2.6
	$19.9	$5.0	$57.8	$82.7

The following is a summary of activity in our current and non-current deferred revenue for the periods ended December 31, 2014 and 2013, for all revenue arrangements. Annual and other revenue below primarily includes the GIA, PA, BOA and registered representative renewal fees. The additions reflect the fees charged during the period, while the amortization reflects the revenues recognized during the period based on the accounting methodology described above:

	Registration	Arbitration	Annual and Other	Total
		(in millions)		
Balance as of January 1, 2014	$19.9	$ 4.6	$ 61.2	$ 85.7
Additions	9.2	10.1	319.4	338.7
Amortization	(9.2)	(9.7)	(322.8)	(341.7)
Balance as of December 31, 2014	$19.9	$ 5.0	$ 57.8	$ 82.7

	Registration	Arbitration	Annual and Other	Total
		(in millions)		
Balance as of January 1, 2013	$20.1	$ 5.0	$ 65.1	$ 90.2
Additions	9.5	8.7	318.1	336.3
Amortization	(9.7)	(9.1)	(322.0)	(340.8)
Balance as of December 31, 2013	$19.9	$ 4.6	$ 61.2	$ 85.7

4. INVESTMENTS

FINRA owns a diverse investment portfolio consisting of 1) U.S. government (including state and local) securities; 2) agency mortgage-backed securities; 3) corporate and asset-backed securities; 4) equity securities; 5) mutual and commingled funds; 6) other investments (including private investments); and 7) other financial instruments. We have classified our marketable investments as trading or available-for-sale based on their nature, and our intent and ability to sell or to hold the securities.

Our investment policy strives to preserve principal, in real terms, while seeking to earn a long-term rate of return commensurate with the degree of risk deemed appropriate by the Board. We execute our investment strategy through separately managed accounts (SMAs) and direct investments. During 2014, our active trading portfolio was managed by an investment manager, who has the authority to buy and sell investments within FINRA-determined, pre-established parameters.

FINRA's investment portfolio consisted of the following as of:

	December 31,	
	2014	2013
	(in millions)	
Trading investments	$ 821.3	$ 728.3
Available-for-sale investments: FINRA	7.2	10.7
Available-for-sale investments: Foundation	26.6	28.8
Other investments:		
Equity method investments	737.0	799.4
Cost method investments	0.3	0.3
Total other investments	737.3	799.7
Total	$1,592.4	$1,567.5

Trading Investments

Unrealized gain (loss) for the period on trading securities held at December 31, 2014 and 2013, was $26.4 million and $(24.7) million.

Available-for-Sale Investments

FINRA's available-for-sale investments (excluding those of the Foundation) consisted of the following:

	Amortized	Gross Unrealized		Fair
	Cost	Gain	Loss	Value
		(in millions)		
As of December 31, 2014:				
Mutual funds	$ 6.8	$0.4	$(—)	$ 7.2
As of December 31, 2013:				
Mutual funds	$10.4	$0.3	$(—)	$10.7

4. INVESTMENTS (CONTINUED)

Available-for-Sale Investments (Continued)

For 2014 and 2013, gross investment gains and losses recognized from our investments in mutual and commingled funds, including amounts reclassified from unrealized gains and losses in accumulated other comprehensive income, are as follows:

	2014	2013
	(in millions)	
Gross investment gains recognized	$0.8	$0.5
Gross investment losses recognized	—	—
Amounts reclassified from accumulated other comprehensive income	0.7	0.3

As of December 31, 2014, the Foundation had investments in mutual and commingled funds with a cost of $23.8 million and a fair value of $26.6 million. As of December 31, 2013, the Foundation had investments in mutual and commingled funds with a cost of $25.9 million and a fair value of $28.8 million. The Foundation's investments are available for use by the Foundation to fund future research and investor education projects.

Other-Than-Temporary Declines in Fair Value

In 2014 and 2013, we did not record any impairment charges related to our mutual and commingled funds. As of December 31, 2014 and 2013, we did not identify any events or circumstances that would indicate the value of our mutual and commingled funds should be impaired. Should there be any impairment charges related to other-than-temporary declines in the fair value of available-for-sale investments, they would be reflected in net realized and unrealized investment gains (losses) in the consolidated statements of operations.

Temporary Declines in Fair Value

As of December 31, 2014 and 2013, the Foundation had one mutual fund with a fair value of $2.9 million, reflecting unrealized losses of $0.1 million less than six months in duration. As of December 31, 2014 and 2013, FINRA had no available-for-sale investments with aggregate unrealized losses.

Other Investments

As of December 31, 2014, FINRA had investments accounted for under the equity method of $736.3 million in one limited partnership and $0.7 million in hedge funds. These investments are included in other investments in the consolidated balance sheets. Our limited partnership investment represents a variable interest in an investment limited partnership. The purpose of the limited partnership is to maximize risk-adjusted returns over the long term by investing in a highly diversified asset allocation strategy. The nature of the limited partnership includes investments in equity, fixed income and alternative investments. As a limited partner, we do not have the power to direct the activities of the partnership that most significantly impact the partnership's business, nor are we the party most closely associated with the partnership. Therefore, we are not the primary beneficiary and, accordingly, account for our interest under the equity method. Our equity in the earnings of the partnership is based on the partnership's reported net asset value (which approximates fair value). The partnership's net assets consist primarily of its investments accounted for at fair value; the majority of the partnership's fair value measurements are based on the estimates of the general partner. We recognized equity earnings from this partnership of $38.0 million and $73.3 million in 2014 and 2013. During 2014 and 2013, we did not make any contributions to this partnership. During 2014, we redeemed $100.0 million from this partnership. Our maximum exposure to loss related to this partnership is limited to $736.3 million, the carrying amount of our investment, due to the legal structure and design of this partnership. We have no outstanding capital commitments, guarantees or any other liquidity arrangements with this partnership. Our ownership interest in this partnership at December 31, 2014 and 2013, was 59.4 percent and 63.3 percent.

4. INVESTMENTS (CONTINUED)

We had an ownership interest in all equity method investments with total net assets of $8.7 billion and total earnings from operations of $119.0 million as of and for the period ended December 31, 2014. Our weighted ownership interest in all equity method investees was 8.4 percent at December 31, 2014.

In 2014, we recognized equity earnings from equity method investments of $37.8 million. We did not recognize any impairment charges on our equity method investments for the year ended December 31, 2014.

As of December 31, 2013, FINRA had investments accounted for under the equity method of $798.3 million in one limited partnership and $1.1 million in hedge funds. We had an ownership interest in all equity method investments with total net assets of $9.5 billion and total earnings from operations of $1.1 billion as of and for the period ended December 31, 2013. Our weighted ownership interest in all equity method investees was 8.4 percent at December 31, 2013.

In 2013, we recognized equity earnings from equity method investments of $73.6 million. We did not recognize any impairment charges on our equity method investments for the year ended December 31, 2013.

5. FAIR VALUE MEASUREMENT

The Company considers cash and cash equivalents, trading and available-for-sale investments, receivables, investments receivable and investments payable to be its financial instruments. The carrying amounts reported in the consolidated balance sheets for these financial instruments equal or closely approximate fair value.

U.S. GAAP defines fair value as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date (*i.e.*, an exit price).

U.S. GAAP prioritizes the level of market price observability used in measuring assets and liabilities at fair value. There are a number of factors that impact market price observability, including the type of assets and liabilities and the specific characteristics of the assets and liabilities. Assets and liabilities with prices that are readily available, actively quoted or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and less degree of judgment used in measuring fair value.

Assets and liabilities measured at fair value are classified into one of the following categories:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access as of the measurement date.
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, through corroboration with observable data.
- Level 3 Unobservable inputs, such as internally developed pricing models for the asset or liability due to little or no market activity for the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset or liability's level within the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement. The assessment of significance of a particular input to the fair value measurement in its entirety requires judgment and factors specific to the asset or liability.

5. FAIR VALUE MEASUREMENT (CONTINUED)

The following table presents information about our assets that are measured at fair value on a recurring basis as of December 31, 2014, and indicates the fair value hierarchy of the valuation techniques utilized to determine fair value:

		Fair Value Measurement at December 31, 2014 Measured Using		
Description	Total carrying amount in balance sheet December 31, 2014	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(in millions)		
Assets:				
Trading securities				
Fixed income				
Agency mortgage-backed securities	$138.4	$ —	$138.4	$—
Corporate debt securities				
Industrial	98.1	—	98.1	—
Banking	96.2	—	96.2	—
Utility	48.4	—	48.4	—
Consumer non-cyclical	44.3	—	44.3	—
Other financial institutions	43.8	—	43.8	—
Communication	42.9	—	42.9	—
Insurance	29.8	—	29.8	—
Government securities	29.6	—	29.6	—
Asset-backed securities	5.7	—	5.7	—
Equity				
Consumer products	58.4	58.4	—	—
Other industries	46.0	46.0	—	—
Industrials	44.9	44.9	—	—
Health care	39.2	39.2	—	—
Financial institutions	28.2	28.2	—	—
Mutual funds	27.4	27.4	—	—
Available-for-sale securities				
Mutual funds	22.9	22.9	—	—
Commingled funds	10.9	—	10.9	—
Total Assets	$855.1	$267.0	$588.1	$—

5. FAIR VALUE MEASUREMENT (CONTINUED)

The following table presents information about our assets that are measured at fair value on a recurring basis as of December 31, 2013, and indicates the fair value hierarchy of the valuation techniques utilized to determine fair value:

		Fair Value Measurement at December 31, 2013 Measured Using		
Description	Total carrying amount in balance sheet December 31, 2013	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(in millions)		
Assets:				
Trading securities				
Fixed income				
Agency mortgage-backed securities	$200.7	$ —	$200.7	$—
Corporate debt securities				
Banking	95.7	—	95.7	—
Industrial	94.0	—	94.0	—
Consumer non-cyclical	65.2	—	65.2	—
Utility	62.7	—	62.7	—
Other financial institutions	44.5	—	44.5	—
Communication	39.9	—	39.9	—
Insurance	36.1	—	36.1	—
Government securities	33.0	—	33.0	—
Asset-backed securities	6.1	—	6.1	—
Other securities	1.8	—	1.8	—
Equity				
Domestic	21.7	21.7	—	—
International	3.5	3.5	—	—
Mutual funds	23.4	23.4	—	—
Available-for-sale securities				
Mutual funds	27.8	27.8	—	—
Commingled funds	11.7	—	11.7	—
Total Assets	$767.8	$76.4	$691.4	$—

Changes in the fair value of trading securities are recorded as a component of net realized and unrealized investment gains in the consolidated statements of operations. Temporary changes in the fair value of available-for-sale securities are recognized as unrealized gains as a separate component of other comprehensive income.

For the years ended December 31, 2014 and 2013, there were no transfers between Level 1, Level 2 or Level 3 of the fair value hierarchy.

5. FAIR VALUE MEASUREMENT (CONTINUED)

The following is a description of the valuation methodologies used for financial assets measured at fair value on a recurring basis and the general classification of these instruments pursuant to the fair value hierarchy.

Fixed Income

All of our fixed income securities classified as trading securities are priced using the services of third-party pricing vendors. These vendors utilize evaluated and industry-accepted pricing models that vary by asset class and incorporate market inputs such as available trade, bid and other market information to determine the fair value of the securities. Accordingly, the valuation of these securities is categorized in Level 2 of the fair value hierarchy.

We independently validate the fair value measurement of our trading securities to determine that the assigned fair values are appropriate. To validate pricing information received, our policy is to employ a variety of procedures throughout the year, including comparing information received to other pricing sources and performing independent price checks.

Mutual Funds

All of the mutual funds classified as trading investments, which consist of funds invested in domestic bonds as well as domestic and international equities, relate to our defined contribution SERP for senior officers and deferred compensation plan for officers under the provisions of Section 457(b) of the IRC. The Company also invests in mutual funds that are classified as available-for-sale investments based on our intent and ability to sell or to hold these investments. One mutual fund investment, related to our closed defined benefit SERP obligation, consists of a life-cycle fund focused on asset allocation through investments in other mutual funds, primarily in bonds with the remainder in equities. Additionally, we have domestic mutual funds that invest in low-duration, fixed income securities; intermediate maturity, fixed income securities; and Treasury inflation-protected securities.

These investments are valued at the publicly quoted net asset value per share which is computed as of the close of business on the balance sheet date. Accordingly, the valuation of these securities is categorized in Level 1 of the fair value hierarchy.

Equity

Our equity securities consist of common stocks of large corporations in a variety of industry sectors, primarily in the United States. These securities are listed on major security exchanges and are valued at their closing prices on the balance sheet date. Accordingly, the valuation of these securities is categorized in Level 1 of the fair value hierarchy.

Commingled Fund

Our commingled fund invests in international equities, excluding emerging markets, and tracks the MSCI World Index. This investment is valued at the quoted net asset value per unit, computed as of the close of business on the balance sheet date. Units of this investment are valued daily and a unit-holder's ability to transact in the fund's units occurs daily. Accordingly, the valuation of these securities is categorized in Level 2 of the fair value hierarchy.

6. INCOME TAXES

FINRA, FINRA REG and FINRA DR are tax-exempt organizations under IRC Section 501(c)(6). The Foundation is a tax-exempt organization under IRC Section 501(c)(4).

Unrelated Business Income

Unrelated business income activities are taxed at normal corporate rates to the extent that they have taxable net income. Our unrelated business activities consist primarily of mortgage licensing services provided under our contract with SRR, certain external client exams and, in 2010 and prior, international consulting.

In 2013, management performed an evaluation of the net operating loss (NOL) previously reported under New NASD Holding, Inc. (NAHO), a wholly-owned taxable subsidiary of FINRA. Management determined that FINRA, as the parent organization, should succeed to the NAHO NOLs upon the liquidation of NAHO. At the time of liquidation, the NOL was determined to have a remaining value, net of gains recognized as part of the transaction, of $60.2 million. As a result of this recognition, as of December 31, 2014, and 2013, FINRA had federal unrelated business loss carryforwards of $60.6 million and $63.8 million, primarily related to NAHO losses and international consulting. The loss carryforwards are scheduled to expire beginning in 2021 through 2028.

The deferred tax asset related to the transfer of the NAHO NOL to FINRA was measured at $20.5 million. In order to record a deferred tax asset without a valuation allowance, it must be more likely than not that the deferred tax asset will be realized. A component of realization is dependent on generating sufficient taxable income prior to the expiration of the loss carryforwards, as well as evaluation of uncertain tax positions. In 2013, we recorded a valuation allowance equal to the amount of the deferred tax asset resulting from the NAHO liquidation. As of December 31, 2014, and 2013, FINRA had a federal deferred tax asset of $0.5 million ($21.0 million net of a $20.5 million valuation allowance) and $1.6 million ($22.1 million net of a $20.5 million valuation allowance), reflecting the benefit of $60.6 million and $63.8 million in loss carryforwards and other minor deferrals. There is no change in the valuation allowance for 2014. The net change in the valuation allowance in 2013 is $20.5 million. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced. There are no other significant deferred tax assets or liabilities related to unrelated business income. The federal and state 2014 and 2013 income tax provision of $1.2 million and $1.3 million primarily represents the net change in deferred tax assets related to unrelated business loss carryforwards during the year. The income tax provision is included in other expense in the consolidated statements of operations in 2014 and 2013.

We did not have any significant unrelated business income taxes payable or refundable in 2014 or 2013.

Uncertain Tax Positions

U.S. GAAP provides a two-step approach for evaluating tax positions. Recognition (step 1) occurs when an entity concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination. In step 2 (measurement), the tax benefit is measured as the largest amount of benefit, determined on a cumulative probability basis, that is more likely than not to be realized upon ultimate settlement. During the years from 2011 to 2014, which represent the years management considers to be open for examination by taxing authorities, management did not identify the existence of any uncertain tax positions. Accordingly, all tax positions are recognized and measured at their full realizable benefit in the consolidated balance sheets and statements of operations. However, in future years, FINRA may recognize an uncertain tax position if total cumulative NOL usage exceeds the amount resulting from pre-NAHO losses.

7. EMPLOYEE BENEFIT LIABILITIES

Defined Benefit Pension Plans

As of December 31, 2014 and 2013, we provided two non-contributory defined benefit pension plans for the benefit of our eligible employees, consisting of a qualified ERP and a non-qualified SERP. The benefits are based primarily on years of service and employees' average compensation, as defined, during the highest 60 consecutive months of employment. Both plans are now closed to new participants.

We established an irrevocable rabbi trust to fund our SERP obligation, and included this trust in our consolidated financial statements. As of December 31, 2014 and 2013, $7.2 million and $10.7 million of investments are included in available-for-sale securities in the consolidated balance sheets, representing the amounts contributed by FINRA, plus earned income and market value gains, less distributions to retirees and market value losses. Additionally, as of December 31, 2014, $1.2 million of investments is included in cash and cash equivalents in the consolidated balance sheets, representing pending distributions to participants.

The investment policy and strategy of the plan assets, as established by the Pension Committee, strive to achieve a rate of return on plan assets that over the long term will, in concert with Company contributions, fund the plan's liabilities to provide for required benefits. The ERP assets are allocated among a diversified portfolio of equity investments, fixed income securities, alternative investments and cash equivalents with both domestic and international strategies. Derivatives are permitted on a limited scale for hedging or creation of market exposures. Direct debt and equity interests are prohibited in any broker-dealer, exchange, contract market, regulatory client, alternative or electronic trading system, and entities that derive a certain threshold of revenue from broker-dealer activities. Asset allocations are reviewed quarterly and adjusted, as appropriate, to remain within target allocations. The Pension Committee reviews the investment policy annually, under the guidance of an investment consultant, to determine whether a change in the policy or asset allocation targets is necessary. The ERP assets consisted of the following as of December 31, 2014 and 2013:

	2014 Target Allocation	2014	2013
Equity securities:			
U.S. equity	18.0%	17.6%	16.4%
Non-U.S. equity	16.0%	15.8%	14.9%
Global equity	12.0%	12.5%	11.5%
Fixed income securities	41.0%	41.2%	32.8%
Alternative investments	11.0%	10.9%	9.0%
Cash equivalents	2.0%	2.0%	15.4%
Total	100.0%	100.0%	100.0%

The allocation percentages at December 31, 2013, vary from the targets as a result of a $57.3 million contribution (14.7 percent of assets) made in December 2013 and initially invested in cash equivalents.

The expected long-term rate of return for the plan's total assets is based on the expected returns of each of the above categories, weighted based on the current target allocation for each class. Based on historical experience, the Pension Committee expects that the ERP's active asset managers overall will provide a modest premium to their respective market benchmark indexes. At least annually, the Pension Committee evaluates whether adjustments are needed based on historical returns to more accurately reflect expectations of future returns.

7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)

The following tables present information about the fair value of the Company's ERP assets at December 31, 2014 and 2013, by asset category, and indicate the fair value hierarchy of the valuation techniques utilized to determine fair value:

	Fair Value Measurement at December 31, 2014 Measured Using			
Description	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
		(in millions)		
Short-term investments in common/collective trusts (a)	$ —	$ 7.9	$ —	$ 7.9
Corporate stocks	15.9	—	—	15.9
Partnership/joint venture interests – real assets (b):	—	—	3.5	3.5
Common/collective trusts (c):				
Equity	—	118.0	—	118.0
Fixed income	—	38.4	—	38.4
Mutual funds:				
Equity	38.3	—	—	38.3
Fixed income	154.4	—	—	154.4
Total	$ 208.6	$164.3	$3.5	$376.4

	Fair Value Measurement at December 31, 2013 Measured Using			
Description	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
		(in millions)		
Short-term investments in common/collective trusts (a)	$ —	$ 60.8	$ —	$ 60.8
Corporate stocks	14.5	—	—	14.5
Partnership/joint venture interests – real assets (b):	—	—	3.5	3.5
Common/collective trusts – equity (c)	—	113.7	—	113.7
Private pension plan investment entities – fixed income (d)	—	64.6	—	64.6
Mutual funds:				
Equity	38.1	—	—	38.1
Fixed income	95.2	—	—	95.2
Total	$ 147.8	$239.1	$3.5	$390.4

(a) Includes non-government fixed income securities, government obligations, money market instruments and repurchase agreements. Fair values have been estimated using the net asset value per unit of the trusts. Units of this investment are valued daily and a unit-holder's ability to transact a unit is not restricted.

(b) Includes an investment in a private equity fund that invests in the natural resources and real estate industries. Fair values have been estimated using the net asset value of the Plan's ownership interest of partner's capital.

7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)

The investment in the private equity fund is nonredeemable. The term of the private investment is the later of August 11, 2018, or one year after the date on which all of its underlying investments have been disposed, but may be terminated earlier as set forth in the partnership agreement. The commitment to the fund is $5.3 million, of which $3.9 million had been funded as of December 31, 2014 and 2013.

(c) Includes both domestic and international equities. Fair values have been estimated using the net asset value per unit of the funds. Investment managers are not constrained by any particular investment style and may invest in either "growth" or "value" securities. Units of this investment are valued daily and a unit-holder's ability to transact in the trusts' units occurs daily.

(d) Includes global fixed income and international equities. Fair values have been estimated using the net asset value per unit of the funds. The net asset value of these investments is determined daily or at least twice a month while redemptions of shares are made often, based upon the closing net asset value. No redemption restrictions exist for these funds.

For the years ended December 31, 2014 and 2013, there were no transfers between Level 1, Level 2 or Level 3 of the fair value hierarchy.

The valuation techniques and inputs used to measure fair value of the ERP assets are consistent with the Company's valuation procedures as disclosed in Note 5, "Fair Value Measurement." At times, the Company may engage external valuation experts to assist with the determination of the fair value of certain ERP assets. For alternative investments, net asset value is used as a practical expedient to measure fair value, unless it is probable that an investment will be sold for a different amount. In these cases, fair value is measured based on recent observable transaction information for similar investments, the consideration of non-binding bids from potential buyers and third-party valuations.

Postretirement and Retiree Medical Benefit Plans

As of December 31, 2014 and 2013, the Company provided a non-contributory postretirement life insurance benefit plan for the benefit of eligible employees. The postretirement benefit plan provides a specified life insurance benefit to eligible retired employees. The postretirement benefit plan is closed with respect to new participants.

As of December 31, 2014 and 2013, the Company provided an employer-funded defined contribution RMA Plan to assist our retirees with the cost of health care expenses during retirement. Under the RMA Plan, Retiree Medical Accounts are created for eligible employees and retirees and fixed annual credits are applied to those accounts for each year of FINRA service beginning at age 40. Active employees may also accrue credits for a portion of their unused vacation and personal leave. The credits can be accessed only in retirement and may be used only toward paying a portion of monthly premiums under FINRA-sponsored retiree health plans.

Voluntary Retirement Program

On October 7, 2013, FINRA announced the implementation of a Voluntary Retirement Program (VRP). The VRP was designed for those employees who were retirement-eligible (minimum age of 55) and when combined with years of service, reached a minimum combined age/years of service of 65 as of January 31, 2014. The VRP included provisions for benefits in the form of severance payments; medical, dental and vision benefits; outplacement services; eligibility and payout for various bonus programs; and additional service credits for the FINRA ERP or contributions to the defined contribution component of the savings plan, as applicable.

We followed the accounting guidance related to special termination benefits provided under the VRP. As of December 31, 2013, we accrued severance benefits of $19.5 million related to the VRP, and this amount is included in compensation and benefits in the consolidated statement of operations. In 2014, $15.5 million of severance benefits were paid out to VRP participants.

7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)

Settlements and/or special termination benefits with respect to pension and retiree medical benefits under the VRP are included in the plan disclosures below.

Plan Disclosures

The following tables disclose information related to our "Pension Plans," which include the ERP and SERP described above, and "Other Plans," which include the postretirement and RMA plans described above. The reconciliation of the projected benefit obligation, the change in the fair value of plan assets for the periods ended December 31, 2014 and 2013, and the accumulated benefit obligation at December 31, 2014 and 2013, are as follows:

	Pension Plans		Other Plans	
	2014	2013	2014	2013
	(in millions)			
Change in benefit obligation				
Benefit obligation at beginning of period	$ 485.4	$ 557.5	$ 51.4	$ 53.1
Service cost	29.3	42.8	3.1	4.1
Interest cost	22.3	21.6	2.6	2.1
Actuarial losses (gains)	63.7	(132.4)	10.9	(6.8)
Benefits paid	(67.1)	(16.8)	(1.2)	(1.1)
Special termination benefits	—	12.7	—	—
Benefit obligation at end of period	$ 533.6	$ 485.4	$ 66.8	$ 51.4
Change in plan assets				
Fair value of plan assets at beginning of period	$ 390.4	$ 309.6	$ —	$ —
Actual return on plan assets	13.8	33.2	—	—
Company contributions	39.3	64.4	1.2	1.1
Benefits paid	(67.1)	(16.8)	(1.2)	(1.1)
Fair value of plan assets at end of period	$ 376.4	$ 390.4	$ —	$ —
Underfunded status of the plan	$(157.2)	$ (95.0)	$(66.8)	$(51.4)
Accumulated benefit obligation (ABO)	$ 410.1	$ 366.4		

Our total accrued pension and other postretirement liability in the consolidated balance sheet comprises the following:

	Pension Plans		Other Plans	
	2014	2013	2014	2013
	(in millions)			
Current	$ 5.7	$ 7.4	$ 2.5	$ 2.4
Noncurrent	151.5	87.6	64.3	49.0
Net amount at December 31	$157.2	$95.0	$66.8	$51.4

The current portion of pension and other liabilities represents the net present actuarial value of benefits to be paid over the next 12 months in excess of plan assets and is included in accrued personnel and benefit costs in the consolidated balance sheet. There are no plan assets for the SERP and RMA Plan.

The Company does not expect any plan assets to be returned to it during the year ending December 31, 2015.

7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)

The net amounts included in accumulated other comprehensive income (loss) are as follows:

	Pension Plans		Other Plans	
	2014	2013	2014	2013
	(in millions)			
Unrecognized net actuarial loss	$(119.4)	$(61.3)	$(15.1)	$ (4.2)
Unrecognized prior service cost	(0.9)	(1.1)	(8.9)	(10.3)
Net amount at December 31	$(120.3)	$(62.4)	$(24.0)	$(14.5)

The following amounts were included in other comprehensive income (loss) during 2014:

	Incurred but Not Recognized	Reclassification Adjustment for Prior Period Amounts Recognized
	(in millions)	
Actuarial (loss) gain		
Pension plans	$(59.5)	$1.4
Other plans	(10.9)	—
	(70.4)	1.4
Prior service cost		
Pension plans	—	0.2
Other plans	—	1.4
	—	1.6
	$(70.4)	$3.0

Estimated amounts to be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost during 2015 based on December 31, 2014, plan measurements are as follows:

	Pension Plans	Other Plans
	(in millions)	
Unrecognized prior service costs	$0.2	$1.4
Unrecognized actuarial losses	5.3	0.5

The weighted-average assumptions used to determine benefit obligations for the years ended December 31, 2014 and 2013, are as follows:

	Pension Plans		Other Plans	
	2014	2013	2014	2013
Discount rate	4.20%	5.00%	3.75%	4.69%
Rate of compensation increase	3.89%	4.80%	—	—

The weighted-average assumptions used to determine net periodic benefit cost for the year are as follows:

	Pension Plans		Other Plans	
	2014	2013	2014	2013
Discount rate	5.00%	4.00%	4.69%	3.55%
Rate of compensation increase	4.80%	4.78%	—	—
Expected return on plan assets	6.75%	6.75%	—	—

7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)

The assumptions above are used to develop the benefit obligations at year end and to develop the net periodic benefit cost for the subsequent year. Therefore, the assumptions used to determine benefit obligations were established at each year end while the assumptions used to determine net periodic benefit cost for each year are established at the end of each previous year. The expected return on plan assets that will be used in the determination of 2015 net periodic benefit cost is 6.25 percent.

The benefit obligations and the net periodic benefit cost are based on actuarial assumptions that are reviewed on an annual basis. We revise these assumptions based on an annual evaluation of long-term trends, as well as market conditions, which may have an impact on the cost of providing retirement benefits.

The components of net periodic benefit cost included in the consolidated statements of operations are as follows:

	Pension Plans		Other Plans	
	2014	2013	2014	2013
	(in millions)			
Service cost	$ 29.3	$ 42.8	$3.1	$4.1
Interest cost	22.3	21.6	2.6	2.1
Expected return on plan assets	(23.4)	(19.8)	—	—
Recognized net actuarial losses	1.4	13.3	—	0.3
Prior service cost recognized	0.2	0.2	1.4	1.4
Net transition obligation recognized	—	—	—	0.1
Settlement expense	13.8	0.6	—	—
Special termination benefits	—	12.7	—	—
Total	$ 43.6	$ 71.4	$7.1	$8.0

The assumed health care cost trend rate to be used for the next year to measure the expected cost of other plan liabilities is 8.5 percent, with a gradual decline to 6.1 percent by the year 2019. This estimated trend rate is subject to change. The assumed health care cost trend rate can have a significant effect on the amounts reported. However, a 1-percentage-point change in the assumed health care cost trend rate would not have a material impact on the benefit obligation or service and interest components of net periodic benefit cost.

We measure our plans as of the end of each fiscal year. The ERP's funding policy is to fund at least 100 percent of the ERP's funding target liability as set forth by the Internal Revenue Service. In 2015, we expect to contribute $36.2 million to the ERP. We do not expect to make any contributions to the SERP in 2015. In addition, we expect to make the following benefit payments to participants over the next 10 years:

	Pension Plans	Other Plans
	(in millions)	
Year ending December 31,		
2015	$ 24.1	$ 3.8
2016	19.9	4.3
2017	22.2	5.0
2018	29.4	5.9
2019	30.2	6.8
2020 through 2024	192.9	51.6
Total	$318.7	$77.4

7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)

All Other Benefit Plans

FINRA also maintains a voluntary contributory savings plan for eligible employees. Employees are immediately eligible to make elective contributions to the plan up to specified plan limits. Employees are also eligible to receive from FINRA a corresponding dollar-for-dollar matching contribution on any elective contribution made by the participant to the savings plan, up to a maximum of 4 percent of base compensation, with an additional discretionary match. The plan also has a retiree medical match equal to 25 cents on the dollar for elective contributions in excess of 6 percent of compensation, up to an annual maximum match of $1,000. The savings plan expense for 2014 and 2013 was $22.7 million and $22.8 million, which is included within compensation and benefits expense in the consolidated statements of operations. The savings plan expense includes a discretionary 2 percent match totaling $6.7 million and $6.6 million for 2014 and 2013, and is included within compensation and benefits expense in the consolidated statements of operations. The retiree medical match for 2014 and 2013 totaled $1.8 million and $1.9 million, which is included within compensation and benefits expense in the consolidated statements of operations.

FINRA also offers a defined contribution component to the savings plan to all new hires since 2011, as well as the ERP participants who elected to participate in the defined contribution component instead of the ERP. The accrued benefit of the former ERP participants was frozen, but future service with FINRA still allows for growth into vesting and eligibility for early retirement and/or early payment subsidies. The Company's contributions for this component are based on the participant's age plus years of service, and vesting is on a graduated scale for up to six years. The investment options are the same as the current options in the savings plan. Expenses related to the defined contribution component to the savings plan for 2014 and 2013 were $5.8 million and $4.7 million, which are included within compensation and benefits expense in the consolidated statements of operations.

FINRA maintains a deferred compensation plan for officers under the provisions of Section 457(b) of the IRC. Eligible employees may contribute to the plan and, at its discretion, FINRA may make additional contributions to the plan. FINRA placed the assets of this plan into an irrevocable rabbi trust that the Company consolidates. As of December 31, 2014, $15.1 million of investments and $15.1 million of amounts due to plan participants are included in trading investments and accrued personnel and benefit costs in the consolidated balance sheet, representing participant contributions to this plan and accrued earnings. As of December 31, 2013, $12.9 million of investments and $12.9 million of amounts due to plan participants are included in trading investments and accrued personnel and benefit costs in the consolidated balance sheet, representing participant contributions to this plan and accrued earnings. As of December 31, 2014 and 2013, FINRA made no additional contributions to this plan.

FINRA maintains a defined contribution SERP for the Company's senior officers. FINRA makes annual contributions based on salary and a portion of incentive compensation. Contributions and earnings vest upon the earlier of 1) the end of each third year of participation following such contribution; 2) attainment of age 62; 3) death; or 4) a disabled participant's termination of employment. FINRA placed the assets of this plan into an irrevocable rabbi trust that the Company consolidates. As of December 31, 2014, $12.3 million of investments and $12.3 million of amounts due to plan participants are included in trading investments and accrued personnel and benefit costs in the consolidated balance sheet, representing FINRA's contributions to this plan plus accrued earnings. As of December 31, 2013, $10.5 million of investments and $10.5 million of amounts due to plan participants are included in trading investments and accrued personnel and benefit costs in the consolidated balance sheet, representing FINRA's contributions to this plan plus accrued earnings.

8. LEASES

FINRA leases certain office space and equipment in connection with its operations. The majority of these leases contain escalation clauses based on increases in rent, property taxes and building operating costs. Certain of these leases also contain renewal options. Rent expense for operating leases was $23.8 million and $23.7 million for the years ended December 31, 2014 and 2013, which is included in occupancy expense in the consolidated statements of operations.

Future minimum lease payments under non-cancelable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 2014:

Year ending December 31,	*(in millions)*
2015	$ 29.4
2016	28.7
2017	27.3
2018	27.0
2019	26.4
Remaining years	47.7
Total minimum lease payments	$ 186.5

9. COMMITMENTS AND CONTINGENCIES

General Litigation

The Company may be subject to claims arising out of the conduct of its business. Currently, there are certain legal proceedings pending against us. Management is not aware of any unasserted claims or assessments that would have a material adverse effect on our financial position and the results of operations. While the outcome of any pending or future litigation cannot be predicted, management does not believe that any such matter will have a material adverse effect on our business or financial position. As of December 31, 2014, there were no material estimated losses requiring disclosure related to pending legal proceedings, because we believe the loss from these matters is not probable. We believe any litigation contingency involves a chance of loss that is either remote or reasonably possible. Such pending legal matters involve unspecified claim amounts, in which the respective plaintiffs seek an indeterminate amount of damages. The outcome of such matters is always uncertain, and unforeseen results can occur. It is possible that such outcomes could require us to pay damages or make other expenditures or establish accruals in amounts that we could not estimate as of December 31, 2014.

10. SUBSEQUENT EVENTS

In January 2015, we purchased the building located at 15200 Omega Drive in Rockville, Maryland (the Omega Building), of which we previously leased approximately 65 percent of the office space, for approximately $18.0 million. The purchase of the Omega Building eliminated future minimum lease payments of $11.5 million in total, $1.5 million of which related to the year ending December 31, 2015. In March 2015, we entered into an unsecured 2.99 percent fixed rate seven-year term loan in the amount of $18.0 million related to our purchase of the Omega Building.

Subsequent events have been evaluated through June 29, 2015, the date these financial statements became available to be issued.

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Rochester, NY

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Boston, MA

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Bethesda, MD

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Sales Practice

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Executive Vice President,
Regulatory Operations—Shared
Services

William J. Wollman
Executive Vice President,
Member Regulation—
Risk Oversight and
Operational Regulation

FINRA Corporate Offices

1735 K Street, NW
Washington, DC 20006
(202) 728-8000

9509 Key West Avenue
Rockville, MD 20850
(301) 590–6500

9513 Key West Avenue
Rockville, MD 20850
(301) 590–6500

15201 Diamondback Drive
Suite 250
Rockville, MD 20850
(301) 590–6500

15200 Omega Drive
Suite 210
Rockville, MD 20850
(240) 386–4000

15200 Omega Drive
Suite 300
Rockville, MD 20850
(301) 258–8500

One Liberty Plaza
165 Broadway
New York, NY 10006
(212) 858–4000

Brookfield Place
200 Liberty Street
New York, NY 10281
(212) 416–0600

FINRA District Offices

Atlanta
One Securities Center
3490 Piedmont Road, NE
Suite 500
Atlanta, GA 30305
(404) 239–6100
(404) 237–9290 (fax)

Boca Raton
Boca Center Tower 1
5200 Town Center Circle
Suite 200
Boca Raton, FL 33486
(561) 443–8000
(561) 443–7995 (fax)

Boston
99 High Street
Suite 900
Boston, MA 02110
(617) 532–3400
(617) 451–3524 (fax)

Chicago
55 West Monroe Street
Suite 2700
Chicago, IL 60603
(312) 899–4400
(312) 606–0742 (fax)

Dallas
12801 North Central Expressway
Suite 1050
Dallas, TX 75243
(972) 701–8554
(972) 716–7646 (fax)

Denver
4600 South Syracuse Street
Suite 1400
Denver, CO 80237
(303) 446–3100
(303) 620–9450 (fax)

Kansas City
120 West 12th Street
Suite 800
Kansas City, MO 64105
(816) 421–5700
(816) 421–5029 (fax)

Long Island
Two Jericho Plaza
2nd Floor, Wing A
Jericho, NY 11753
(516) 827–6100
(516) 827–6101

Los Angeles
300 South Grand Avenue
Suite 1600
Los Angeles, CA 90071
(213) 229–2300
(213) 617–3299 (fax)

New Jersey
581 Main Street
Suite 710
Woodbridge, NJ 07095
(732) 596–2000
(732) 596–2001 (fax)

New Orleans
1100 Poydras Street
Energy Centre
Suite 850
New Orleans, LA 70163
(504) 522–6527
(504) 522–4077 (fax)

New York
Brookfield Place
200 Liberty Street
New York, NY 10281
(212) 858–4000
(212) 858–4189 (fax)

Philadelphia
1835 Market Street
Suite 1900
Philadelphia, PA 19103
(215) 665–1180
(215) 496–0434 (fax)

San Francisco
One Montgomery Street
Suite 2100
San Francisco, CA 94104
(415) 217–1100
(415) 956–1931 (fax)

Seattle
601 Union Street
Suite 1616
Seattle, WA 98101
(206) 624–0790
(206) 623–2518 (fax)

FINRA Market Regulation Regional Offices

55 West Monroe Street
Suite 2600
Chicago, IL 60603
(312) 899–4504
(312) 236–9257 (fax)

440 South LaSalle Street
Suite 3500
Chicago, IL 60605

Brookfield Place
200 Liberty Street
New York, NY 10281
(212) 416–0600

1835 Market Street
Suite 1900
Philadelphia, PA 19103
(215) 665–1180
(215) 496–0434 (fax)

220 Montgomery Street
Suite 200
San Francisco, CA 94104
(415) 835–4860
(301) 339–7545 (fax)

FINRA Dispute Resolution Regional Offices

Midwest Region
55 West Monroe Street
Suite 2600
Chicago, IL 60603
(312) 899–4440
(312) 236–9239 (fax)

Northeast Region
One Liberty Plaza
165 Broadway
27th Floor
New York, NY 10006
(212) 858–4200
(301) 527–4873 (fax)

Southeast Region
Boca Center Tower 1
5200 Town Center Circle
Suite 200
Boca Raton, FL 33486
(561) 416–0277
(301) 527–4868 (fax)

West Region
300 South Grand Avenue
Suite 900
Los Angeles, CA 90071
(213) 613–2680
(301) 527–4766 (fax)

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1735 K Street NW
Washington, DC
20006-1506

www.finra.org

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