2019 FINRA Annual Financial Report

Contents

Robert W. Cook | President and Chief Executive Officer

A MESSAGE FROM THE PRESIDENT AND CEO

Once again, FINRA is publishing its Annual Financial Report presenting the organization's financial operations for 2019 in accordance with U.S. generally accepted accounting principles (U.S. GAAP). This Annual Financial Report, together with FINRA's 2019 Annual Budget Summary, describe how FINRA managed its finances in 2019 to support its mission of protecting investors and promoting market integrity in a manner that facilitates vibrant capital markets.

FINRA—a not-for-profit, self-regulatory organization (SRO) whose operations are funded by industry fees—is guided by a set of Financial Guiding Principles that FINRA's Board reviews and approves each year. FINRA first published the Principles in 2018 to underscore our commitment to financial transparency.

Financial Operations and Use of Fine Monies in 2019

As described in the 2019 Annual Financial Report, we reported a net loss of $45.9 million for the year, versus a net loss of $68.7 million in 2018, which was driven by an operating loss of $123.6 million. Our operating loss in 2019 was offset by investment gains net of other expenses of $77.7 million.

FINRA continues to maintain a strong balance sheet to support its operations, with approximately $1.5 billion in equity as of December 2019. The key drivers of our 2019 financial performance are discussed more fully in the Annual Financial Report.

In June, FINRA published a Report on Use of Fine Monies in 2019, describing the Board-approved projects that were supported by 2019 fine monies. In accordance with our Financial Guiding Principles, FINRA only uses fine monies it collects for specific purposes—such as capital initiatives that enable improved oversight of and compliance by member firms—and only with the approval of the FINRA Board of Governors or its Finance, Operations and Technology Committee.

2020 Budget

In keeping with FINRA's Financial Guiding Principles, earlier this year, we published our 2020 Annual Budget Summary describing how we plan to deploy our resources in 2020 to meet FINRA's various regulatory responsibilities. The 2020 budget was developed and approved by FINRA's Board of Governors before the nature and extent of the COVID-19 outbreak became apparent. During the pandemic, we have continued to fulfill our vital mission—supervising our member firms, overseeing the markets and enforcing the rules and regulations of FINRA and the Securities and Exchange Commission (SEC) applicable to our members. The unique demands and implications of the COVID-19 pandemic may well impact our financial performance relative to the projections in the 2020 budget.

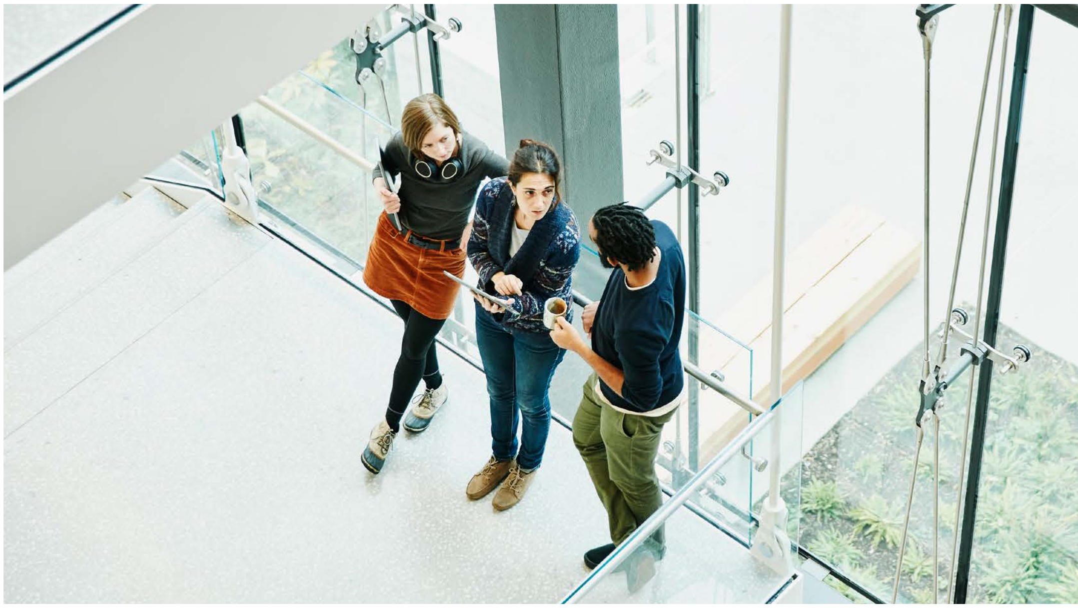
Our 2020 budget reflects our commitment to investing in technology enhancements and other transformational initiatives that can help FINRA respond effectively and efficiently to developments in our markets and our increasing regulatory responsibilities—while focusing on prudent management of our expenses.

We do not plan to increase regulatory fees in 2020, marking our seventh consecutive year without a fee increase. As noted in the budget summary, we are preparing a proposal to raise regulatory fees that will be filed with the SEC. While we plan to continue drawing down on reserves over the next few years, our goal is to finalize in the near-term the provisions of a future regulatory fee increase in order to provide member firms with advance notice so they can plan accordingly, and to permit the fee increase to be phased in over multiple years.

FINRA remains committed to appropriately managing our finances to ensure we fulfill our mission of protecting investors and safeguarding market integrity.

Robert W. Cook

Robert W. Cook
President and Chief Executive Officer



We protect investors from bad actors.

6,740
exams and reviews conducted in 2019

$39.5
million in fines

$27.9
million in restitution to harmed investors

6
firms expelled

415
brokers suspended

348
brokers barred

FINRA plays an essential role in the oversight of U.S. broker-dealers.

We promote market integrity in a manner that supports the important role our capital markets play in the U.S. financial systems.

Our technology looks across markets to detect potential fraud.

71.5 billion

market events processed on average every day in 2019

Coordinating closely with the SEC and other federal and state regulators is an important part of our regulatory work.

827 fraud

and insider trading cases referred to the SEC and other federal or state law enforcement agencies for prosecution

We work to keep investors informed.

FINRA Investor Education Foundation

Committed $116.9 million for financial capability and fraud prevention initiatives since inception.

Securities Helpline for Seniors

FINRA launched the Helpline on April 20, 2015, to assist senior and vulnerable investors with questions or concerns about their brokerage accounts and investments. As of December 31, 2019, the Helpline has:

- received more than 18,000 calls from all 50 states and several countries;
- made more than 1,400 referrals to state, federal and international regulators; and
- assisted with the return of more than $7 million to investors.

Management Report on Operations

Who We Are

The Financial Industry Regulatory Authority, Inc.® (FINRA®) is a not-for-profit self-regulatory organization (SRO) authorized by federal law to help protect investors and ensure the fair and honest operation of securities markets. Under the oversight of the U.S. Securities and Exchange Commission (SEC), we regulate the activities of U.S. broker-dealers and perform market regulation pursuant to our own statutory responsibility and under contract for certain exchanges.

Our Mission

Our core mission is to provide investor protection and promote market integrity through comprehensive and effective regulation of the broker-dealer industry.

Our Regulatory Model

To carry out its mission, FINRA uses a multi-pronged approach that includes regulation, rulemaking, transparency and education:

Member Supervision—monitors and examines for member firm compliance with applicable statutes and rules, and works to detect and address possible fraud or other misconduct.

Market Regulation—conducts automated surveillance, examinations and investigations of trading activity in U.S. equities, options and fixed income markets.

Enforcement—investigates possible misconduct and brings disciplinary actions for violations of industry rules and regulations.

Rulemaking and Guidance—assists in adopting and interpreting rules applicable to securities firms and brokers, and evaluates the potential impacts of FINRA's rulemaking on all market participants through economic research and analysis. FINRA solicits comment on its proposed rules from its member firms, investors and other interested parties, and, with limited exceptions, all FINRA rules must be approved by the SEC.

Credentialing, Registration, Education and Disclosure—operates FINRA's utilities to register and test securities industry personnel and provides those same services under contract for the benefit of investment advisers and mortgage brokers.

Market Transparency—operates facilities that disseminate real-time and historical market information for over-the-counter (OTC) trading in the equity and fixed income markets, and maintains the databases FINRA uses to oversee OTC securities.

Dispute Resolution Services—operates a dispute resolution forum for investors, brokerage firms and their registered employees, and administers arbitrations and mediations.

Advertising Regulation—oversees compliance with rules intended to ensure that member firm communications to the public are fair, balanced and not misleading.

Corporate Financing—oversees compliance with rules intended to prevent fraudulent private placements by member firms and ensure underwriting compensation is fair.

Investor Education—provides investors with financial tools and resources; and through the FINRA Investor Education Foundation® (the Foundation), FINRA supports important research and financial education initiatives.

FINRA's Board of Governors (Board) and its committees meet multiple times throughout the year to review the operations, risks and challenges associated with the furtherance of FINRA's mission. These committees include the Audit Committee; Regulatory Policy Committee; Regulatory Operations Oversight Committee; Finance, Operations and Technology Committee (Finance Committee); Management Compensation Committee; and Executive Committee.

Pursuant to a contract with Consolidated Audit Trail, LLC, FINRA CAT, LLC (FINRA CAT), a wholly-owned subsidiary of FINRA, serves as the Plan Processor for the Consolidated Audit Trail (CAT). As the CAT Plan Processor, FINRA CAT operates and maintains certain aspects of CAT and continues to build and implement other aspects of CAT. Once fully built, CAT will be a central repository of reports of trades, quotes and orders for all U.S. exchange-listed and over-the-counter equity securities and U.S. exchange-listed options contracts across all U.S. markets and trading venues.

Further description of FINRA's statutory responsibilities, as well as its responsibilities under contract for certain exchanges, can be found in Note 1, "Organization and Nature of Operations," to the consolidated financial statements.

This Management Report should be read in connection with the consolidated financial statements and accompanying notes included elsewhere in this Annual Financial Report. The 2019 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 year ended December 31, 2019, FINRA's primary consolidated subsidiaries were FINRA Regulation, Inc., FINRA CAT and the Foundation. As of and for the year ended December 31, 2018, FINRA's primary consolidated subsidiaries were FINRA Regulation, Inc. and the Foundation.

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

We describe our significant accounting policies in Note 2, "Summary of Significant Accounting Policies," Note 3, "Revenue from Contracts with Customers," Note 5, "Fair Value Measurement," and Note 7, "Employee Benefit Liabilities," to the consolidated financial statements.

RESULTS OF OPERATIONS

Summary of Operations

The following table provides a summary of our financial results on a U.S. GAAP basis for the two years ended December 31, 2019.

	Years Ended December 31,	
	2019	2018
	(in millions)	
Operating revenues	$ 899.0	$ 857.4
Fines	39.5	61.0
Net activity assessment revenues	—	0.1
Net revenues	938.5	918.5
Expenses	(1,095.0)	(974.7)
Interest and dividend income	32.9	27.6
Operating loss	(123.6)	(28.6)
Net realized and unrealized investment (losses) gains	90.9	(51.1)
Equity (losses) earnings from other investments	—	12.0
Other expense	(13.2)	(1.0)
Net (loss) income	$ (45.9)	$ (68.7)

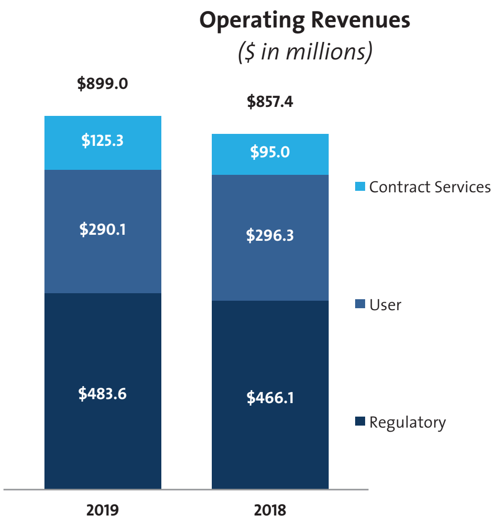
In the 2018 amounts reported above, the components of net periodic benefit expense excluding service cost related to our pension and other postretirement plans were reclassified from compensation and benefits expense to other expense to match the 2019 financial statement presentation.

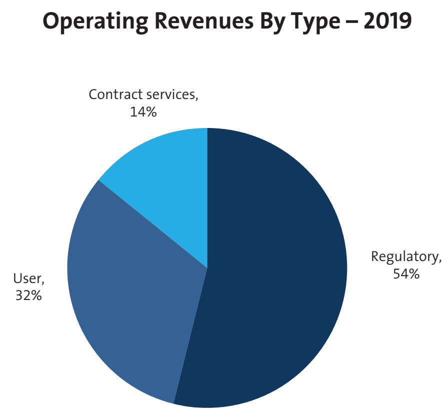
We reported a net loss of $45.9 million in 2019 versus $68.7 million in 2018, a net loss decrease of $22.8 million year over year. Our 2019 net loss of $45.9 million was driven by an operating loss of $123.6 million offset by investment gains net of other expenses of $77.7 million. An increase in expenses, partially offset by an increase in operating revenues, led to an increase in our year-over-year operating loss. Our investment portfolio (the Portfolio) experienced gains for the year, as investment conditions were generally favorable.

On September 18, 2019, 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 December 31, 2019. The VRP included provisions for benefits in the form of severance payments; medical, dental and vision benefits; outplacement services; and eligibility and payout for various bonus programs, as applicable. We followed the accounting guidance related to pension plan special termination benefits and severance benefits provided under the VRP. A more detailed look at our operating results follows.

Management Report on Operations (continued)

OPERATING REVENUES





COMMENTARY: 2019 – 2018

Regulatory revenues, such as the Gross Income Assessment (GIA), Personnel Assessment (PA), Branch Office Assessment and Trading Activity Fees, consistently represent approximately half of FINRA's operating revenues on an annual basis. User revenues (dispute resolution, transparency services, registrations, qualification examinations, FINRA-sponsored educational programs and conferences, and reviews of advertisements, corporate filings and disclosures) consistently represent approximately one-third of FINRA's operating revenues on an annual basis.

FINRA's operating revenues for 2019 increased $41.6 million or 4.9 percent. The following table identifies the changes in operating revenues year over year.

Operating Revenues
(in millions)

2019 – 2018	
2018	**$ 857.4**
Contract services revenues	30.3
Regulatory revenues	17.5
User revenues	(6.2)
2019	**$899.0**

Contract services revenues. Revenues related to our selection as the CAT Plan Processor primarily drove the increase in contract services revenues.

Regulatory revenues. Higher GIA, driven by an increase in industry revenues, led to an increase in regulatory revenues.

User revenues. The decrease in user revenues resulted from decreases in qualification examination and dispute resolution revenues, which were partially offset by an increase in transparency services revenues.

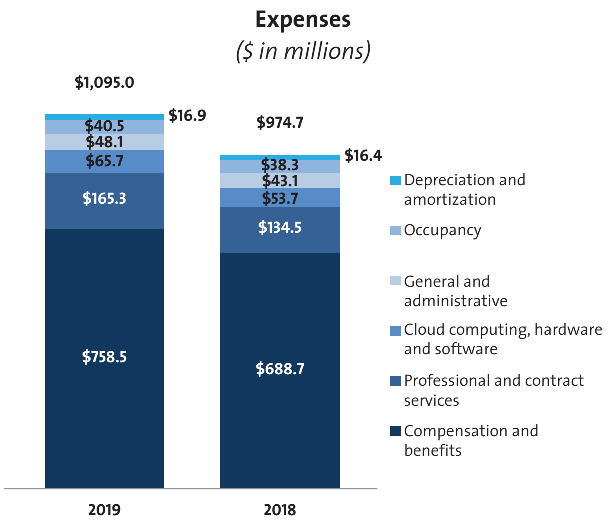
Qualification examination revenues decreased as a result of the restructuring of our representative-level qualification exam program effective October 1, 2018. Prior to the restructuring, there was an increase in legacy examination registrations. A decrease in arbitration cases drove the decrease in dispute resolution revenues.

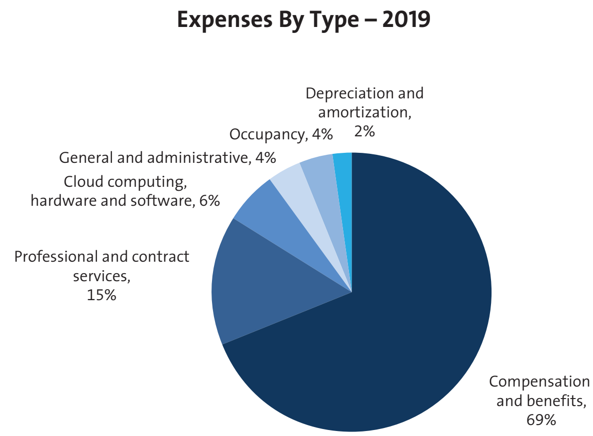
The increase in transparency services revenue was driven by higher fixed income trading volumes partially offset by lower OTC compare/accept fees.

Descriptions of the nature of and accounting for FINRA's revenues are described in Note 3, "Revenue from Contracts with Customers," to the consolidated financial statements.

Management Report on Operations (continued)

EXPENSES





COMMENTARY: 2019 – 2018

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, consistently representing more than two-thirds of total expenses on an annual basis. Information regarding FINRA's compensation philosophy can be found in the accompanying Management Compensation Committee Report of this 2019 Annual Financial Report. FINRA had approximately 3,400 employees as of December 31, 2019 and 2018.

Expenses for 2019 increased $120.3 million or 12.3 percent. The following table identifies the changes in expenses year over year.

Expenses
(in millions)

2019 – 2018	
2018	**$ 974.7**
Compensation and benefits	69.8
Professional and contract services	30.8
Cloud computing, hardware and software	12.0
All other	7.7
2019	**$1,095.0**

Compensation and benefits. VRP severance, employee merit increases, an increase in employee incentive compensation, and expenses related to the deferred compensation plan for officers and the supplemental defined contribution plan for senior officers primarily account for the increase in compensation and benefits expenses.

Professional and contract services. Application development, consulting and legal costs associated with FINRA being named the CAT Plan Processor, combined with increased technology maintenance costs, were the primary drivers of the increase in professional and contract services expenses.

Cloud computing, hardware and software. Our expanded use of cloud computing services under our enterprise customer agreement with a third-party vendor combined with computer equipment purchases drove the increase in cloud computing, hardware and software expenses.

Management Report on Operations (continued)

INVESTMENT RETURNS

Traditionally, FINRA has relied on the investment returns from its balance sheet to fund operating expenditures in excess of its annual revenues in any given year. FINRA's Portfolio, which we also refer to as our financial reserves, provided a 6 percent return in 2019 compared to a 2.3 percent loss in 2018.

Additional information regarding the Portfolio, strategy and returns can be found in the accompanying Investment Committee Report of this 2019 Annual Financial Report. Descriptions of the nature of and accounting for FINRA's investments are described in Note 2, "Summary of Significant Accounting Policies," and Note 4, "Investments," to the consolidated financial statements.

RESTITUTION AND FINES

FINRA is dedicated to investor protection and market integrity through effective and efficient regulation of broker-dealers. One of FINRA's tools for achieving this objective is vigorous, fair and effective enforcement of our member firms' compliance with securities laws and regulations.

When a member firm or registered representative engages in misconduct, restitution for harmed customers is our highest priority, although there are many cases in which it is not practical. Restitution may be ordered when an investor has suffered a quantifiable loss due to misconduct. The calculation of restitution is based on the actual amount of the harm sustained by the investor, as demonstrated by evidence. We ordered restitution to harmed investors of $27.9 million during 2019. Restitution is assessed separately from fines and has no impact on how or when we use fine money. Restitution is payable to the harmed party and has no effect on our financial position.

When a member firm or registered representative engages in misconduct, we also assess whether a sanction should be imposed in order to discourage similar conduct by the firm, registered representative or others. When we impose fines, the amounts are based on the facts and circumstances of the misconduct and the principles set forth in the *FINRA Sanction Guidelines*. The National Adjudicatory Council (NAC), which is composed of industry and non-industry members, continues to maintain the *FINRA Sanction Guidelines* for use by the various bodies adjudicating FINRA disciplinary decisions, including Hearing Panels and the NAC itself, in determining appropriate remedial sanctions. FINRA publishes the *FINRA Sanction Guidelines* so that member firms, associated persons and their counsel may become more familiar with the types of disciplinary sanctions that may be applicable to various violations.

Fines are not based on revenue considerations, and we do not establish any minimum amount of fines that must be assessed for purposes of our annual budget. These monies are not considered in determining employee compensation and benefits. The total amount of fines decreased by $21.5 million in 2019 to $39.5 million.

FINRA's use of fine monies is governed by FINRA's Financial Guiding Principles (Principles), which we published in January 2018 to provide more transparency about how we manage our financial resources to ensure we fulfill our regulatory responsibilities and further our mission. FINRA's Board reaffirmed the Principles in December 2019. As the Principles describe, FINRA accounts for fine monies separately, and any use of such monies is approved, separately from other expenditures, by the Board or its Finance Committee. The Board or its Finance Committee may authorize the use of fine monies only for one of four enumerated purposes: (1) capital/initiatives or non-recurring strategic expenditures that promote more effective and efficient regulatory oversight by FINRA (including leveraging technology and data in a secure manner) or that enable improved compliance by member firms; (2) activities to educate investors, promote compliance by member firms through education, compliance resources or similar projects, or ensure our employees are highly trained in the markets, products and businesses we regulate; (3) capital initiatives required by new legal, regulatory or audit requirements; or (4) replenishing reserves in years where such reserves drop below levels reasonably appropriate to preserve FINRA's long-term ability to fund its regulatory obligations.

In accordance with the Principles, in June 2020, FINRA issued a separate detailed report covering all projects for which fine monies were used in 2019.

Management Report on Operations (continued)

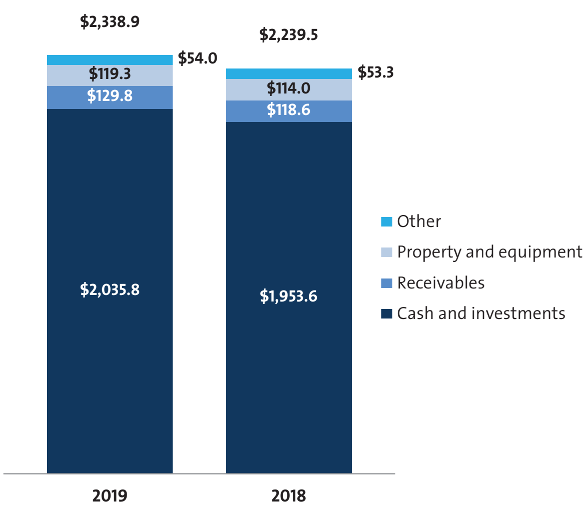
BALANCE SHEET

Our focus is to ensure a balance sheet that positions FINRA to fulfill our regulatory obligations and mission in today's continually evolving markets. To that end, our balance sheet remains strong, with net assets of approximately $1.5 billion as of December 31, 2019 and 2018. FINRA's working capital (excluding fines and our consolidated limited partnership) was $880 million as of December 31, 2019, and $784 million as of December 31, 2018. Our working capital and cash ratios (excluding fines and our consolidated limited partnership) were 2.42 and 2.16 as of December 31, 2019, compared to 2.53 and 2.28 as of December 31, 2018. The increase in FINRA's working capital was driven by the purchase of fixed income (short-term) investments with proceeds from the redemption of other (long-term) investments and positive short-term investment performance in 2019. VRP-related severance liabilities in 2019 led to the slight decrease in our working capital and cash ratios year over year.

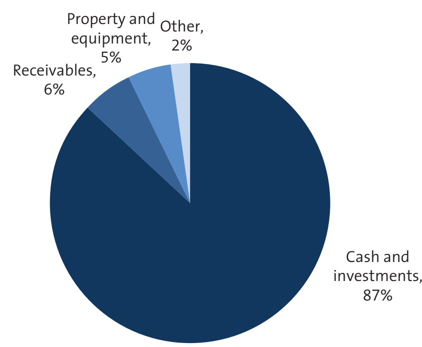
Assets

Assets By Type as of December 31

($ in millions)



Assets By Type as of December 31, 2019



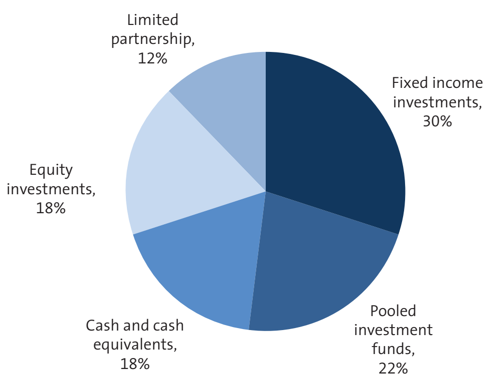
Assets (continued)

COMMENTARY: 2019 – 2018

Cash and investments (cash, cash equivalents and fixed income, equity and other investments, including investments receivable), are the largest portion of FINRA's total assets, consistently representing close to 90 percent of total assets annually. Our primary market risk relates to the Portfolio. The value of our investments is impacted by fluctuations in the economic climate, as well as changes in individual security prices associated with a diverse array of investment strategies.

Cash and investments as of December 31, 2019, are presented in the following chart.

Cash and Investments By Type as of December 31, 2019



Descriptions of the nature of and accounting for FINRA's investments are described in Note 2, "Summary of Significant Accounting Policies," and Note 4, "Investments," to the consolidated financial statements.

Total assets increased $99.4 million or 4.4 percent. The following table identifies the changes in assets year over year.

Assets
(in millions)

2019 – 2018	
2018	**$2,239.5**
Cash and investments	82.2
Receivables	11.2
Property and equipment	5.3
All other	0.7
2019	**$2,338.9**

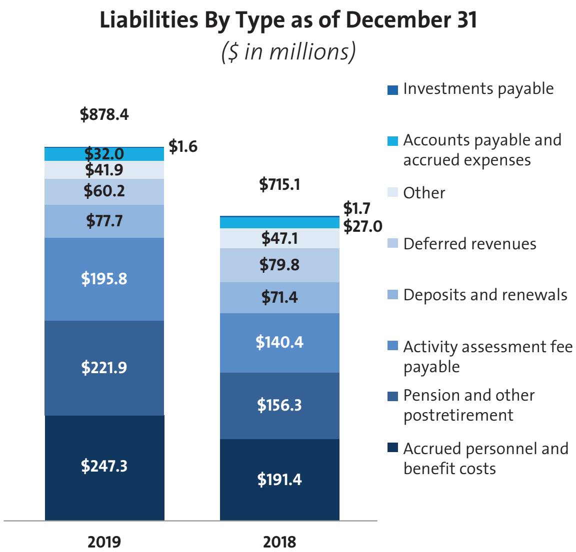
Cash and investments. Cash and investments increased due to investment returns of 6 percent in 2019 and a higher cash balance in 2019 compared to 2018 due to the approximate 59 percent increase in SEC fee rates. FINRA assesses regulatory transaction fees in accordance with prescribed SEC fee rates; therefore, our cash, activity assessment fee receivable and activity assessment fee payable balances fluctuate year over year as a result of changes in SEC fee rates.

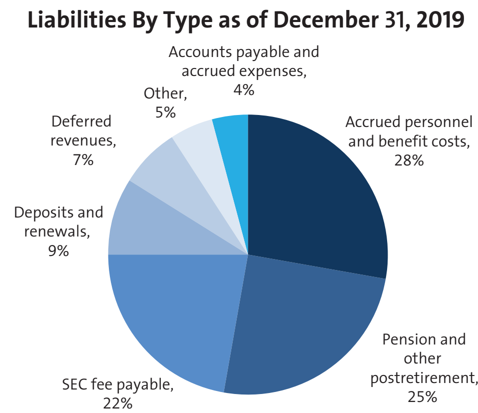
Receivables. Receivables increased due to FINRA operating as the CAT Plan Processor starting in 2019 and an increase in activity assessment fee receivables. An approximate 59 percent SEC fee rate increase from December 31, 2018, to December 31, 2019, led to the increase in activity assessment fee receivables. Offsetting these increases was a decrease in fines receivables. Fines collections in excess of fines billed led to the decrease in fines receivables.

Property and equipment. The increase in property and equipment is primarily due to the capitalization of internal use software partially offset by the retirement of technology assets as we continue to migrate to the cloud, along with depreciation and amortization, which represents the normal reduction in our property, equipment and intangible asset base year over year.

Management Report on Operations (continued)

Liabilities





COMMENTARY: 2019 – 2018

Total liabilities increased $163.3 million or 22.8 percent. The following table identifies the individually material changes in liabilities year over year.

Liabilities
(in millions)

2019 – 2018	
2018	**$ 715.1**
Pension and other postretirement	65.6
Accrued personnel and benefit costs	55.9
Activity assessment fee payable	55.4
Deferred revenue	(19.6)
All other	6.0
2019	**$878.4**

Pension and other postretirement. The increase in pension and other postretirement liabilities was primarily driven by changes in actuarial assumptions and normal costs offset by asset performance related to FINRA's pension plan. The pension plan discount rate fell from 4.3 percent at December 31, 2018, to 3.2 percent at December 31, 2019.

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. These costs have historically represented approximately one-quarter of total liabilities on an annual basis. Further disclosures regarding the assumptions used in determining our pension and other postretirement liabilities can be found in Note 2, "Summary of Significant Accounting Policies."

Accrued personnel and benefit costs. VRP-related severance and a year-over-year increase in accrued employee incentive compensation, along with an increase in expenses related to the deferred compensation plan for officers and the supplemental defined contribution plan for senior officers, were the primary drivers for the increase in accrued personnel and benefit costs.

Activity assessment fee payable. The rate increase from $13 to $20.7 per million dollars in transactions drove the increase in our activity assessment fee payable. We remit these activity assessment fees to the U.S. Department of Treasury semiannually, in March and September.

Deferred revenue. The release of previously deferred initial registration fees that no longer qualified for deferral upon our January 1, 2019, adoption of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, led to the decline in deferred revenue. See Note 3, "Revenue from Contracts with Customers," for further details.

Management Report on Operations (continued)

LIQUIDITY AND CAPITAL RESOURCES

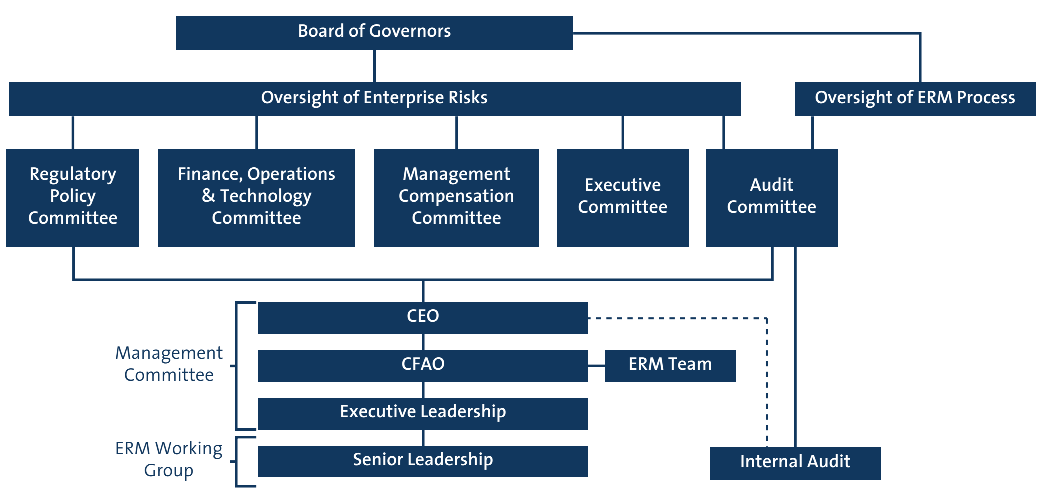
Liquidity is the ongoing ability to fund asset growth and business operations and meet contractual obligations through unrestricted access to funding at reasonable market rates. Liquidity management involves forecasting funding requirements and maintaining sufficient working capital to meet business needs and accommodate fluctuations in asset and liability levels due to changes in business operations or unanticipated events. We primarily rely on operating cash flows to fund current and future operations.

We maintain a seasonal unsecured line of credit agreement with the option to borrow up to $150 million at the LIBOR Daily Floating Rate plus 0.45 percent (1.99 percent at December 31, 2019). This line of credit was available to us from February 1, 2019, to May 31, 2019, and renewed from February 1, 2020, to May 31, 2020. The line of credit provides us with a mechanism to fund operations prior to the annual billing of the GIA and PA in April, and the subsequent receipt of those funds, without having to make redemptions from the Portfolio. As of December 31, 2019, and December 31, 2018, no amounts were outstanding under this line of credit.

The Portfolio is governed by a policy based on the degree of risk deemed appropriate for FINRA assets by the Board as applied to its investment objectives. FINRA's Investment Committee, whose members have extensive background and experience in the investment community, provides overall guidance and advice in determining the appropriate policy and allocation for the Portfolio. As of December 31, 2019, our investments remained generally liquid, with 81 percent available in 60 days or less. Additional information regarding the Portfolio can be found in the accompanying Investment Committee Report of this 2019 Annual Financial Report.

ENTERPRISE RISK MANAGEMENT

FINRA's Enterprise Risk Management (ERM) program is designed to provide a consolidated, organization-wide view of the risks that FINRA faces in the execution of its mission, strategic goals and key business objectives. The program covers a broad spectrum of risks in various risk categories, such as strategic, operational, legal and compliance, and financial, and provides transparency for senior management and the Board regarding FINRA's enterprise-level risks and how they are being managed. The chart below shows the governance structure FINRA has in place to oversee and manage enterprise risk.



The Board oversees the ERM program, with oversight of the ERM process delegated to the Audit Committee and the primary oversight for each enterprise risk assigned to a specific Board committee, with support by other committees and working groups, as the need arises.

Where Board committees are assigned primary risk oversight responsibility, those committees meet to review and discuss the assigned enterprise risk with the designated risk owners, including factors impacting the risk, risk response, and risk tolerances and metrics.

Executive support and oversight of ERM is effected through the Management Committee, composed of the Chief Executive Officer (CEO), Chief Financial and Administrative Officer (CFAO) and other senior executives across the organization. Additionally, an ERM Working Group brings together senior managers across FINRA to provide fresh perspectives and support. FINRA's Internal Audit Department serves the ERM program in an advisory capacity.

CYBER AND INFORMATION SECURITY

FINRA operates a comprehensive security program designed to mitigate cyber and physical information security threats and ensure compliance with applicable data privacy regulations and laws. We base our program upon industry best practices, and are guided by federal and international standards, and data privacy laws and regulations. Cybersecurity and information security breach risks are integrated into FINRA's ERM program.

Specifically, FINRA's information-security practices and operational controls include leading practices such as a formal security assessment program used to evaluate vendor, partner and third-party security practices, and real-time logging, monitoring and alerting of security events.

FINRA's adoption of cloud technology provides numerous benefits, such as access to best-of-breed security solutions made available by the cloud provider's scale of operations. Another benefit is our ability to use micro-segmentation, or putting each server into a security zone of one, which dramatically reduces attack surface area. Cloud technology also enables us to focus on the automation and tools necessary to raise the compliance bar and simplify controls.

FINRA information technology systems are subject to numerous mandatory and voluntary inspections including, but not limited to, the following:

- regular vulnerability scans;
- application code analysis and security testing using automated scans, dynamic testing and manual attack techniques to identify application-level vulnerabilities;
- periodic independent, third-party penetration tests and application security assessments;
- annual inspections conducted by the SEC;
- an annual Service Organization Control (SOC) 2 Type II Assessment; and
- annual assessments by our Internal Audit department.

Investment Committee Report

Year Ended December 31, 2019

FINRA's investment portfolio*, also referred to as our financial reserves, originally derived from the sale of Nasdaq that culminated in 2006, is overseen by the Investment Committee, a standing committee of FINRA, and managed to preserve principal and support our regulatory operations. FINRA has a set of Financial Guiding Principles that establish a goal of maintaining investment balances equal to at least one year of expenditures. Distributions from the portfolio are subject to prior approval by the Board of Governors (Board), and may be used to defer member firm fee increases or make up cash flow losses, among other uses.

The 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 outside 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 six times during 2019.

FINRA's investment portfolio gained 6.0 percent in 2019, including returns from its cash operating fund. Improving global economic growth and a trade deal with China helped bolster risk sentiment across global equity markets, as measured by the S&P 500 (31.5 percent) and the MSCI All Country World Index (27.3 percent). Accommodative policies by the U.S. Federal Reserve propelled bonds to finish the year with a gain of 8.7 percent. The chart below shows investment results for FINRA and for several common market indices and conventional portfolios of equities and bonds. As of December 31, 2019, FINRA's investment portfolio, including cash, totaled approximately $1.7 billion. Portfolio liquidity remained strong, with $1.4 billion, or 81 percent, available in 60 days or less as of December 31, 2019.

		Annualized	
Returns	2019	3-Year	5-Year
FINRA	6.0%	4.1%	3.3%
U.S. Consumer Price Index	2.3%	2.1%	1.8%
100% Equities	27.3%	13.0%	9.0%
100% Bonds	8.7%	4.0%	3.0%
40% Equities /60% Bonds	16.1%	7.7%	5.6%
60% Equities /40% Bonds	19.9%	9.5%	6.8%

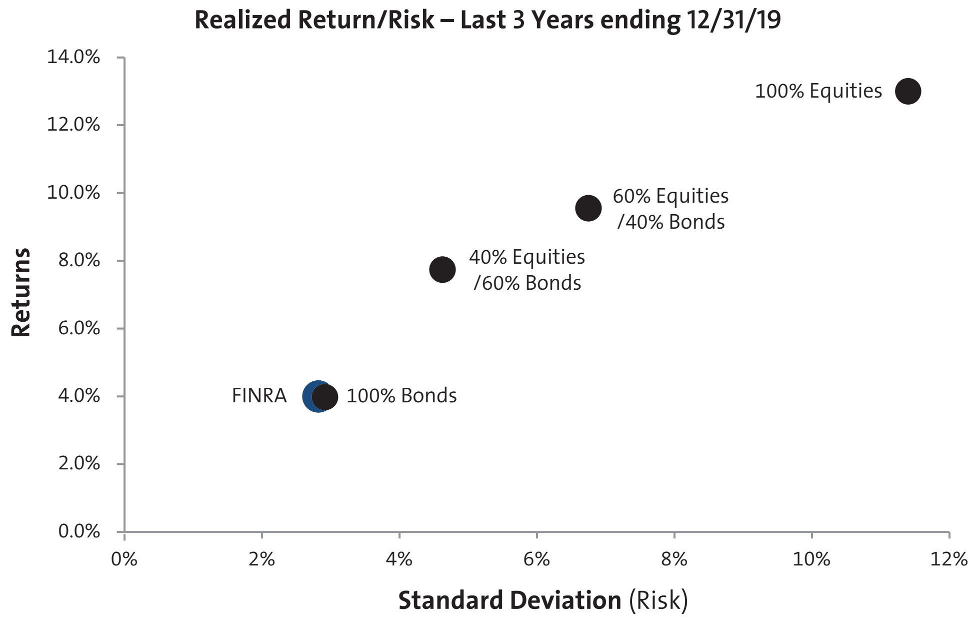
Standard Deviation	3-Year	5-Year
FINRA	2.8%	3.2%
100% Equities	11.4%	11.8%
100% Bonds	2.9%	3.1%
40% Equities /60% Bonds	4.6%	4.8%
60% Equities /40% Bonds	6.7%	7.0%

Sharpe Ratio (1)	3-Year	5-Year
FINRA	0.8	0.7
100% Equities	1.0	0.7
100% Bonds	0.8	0.6
40% Equities /60% Bonds	1.3	0.9
60% Equities /40% Bonds	1.2	0.8

Benchmark Definitions: Equities = MSCI ACWI, Bonds = Bloomberg Barclays U.S. Aggregate Bond Index.

(1) The Sharpe ratio is the return earned in excess of the risk-free rate (3-Month U.S. Treasury Bill) on a portfolio, relative to the portfolio's total risk, as measured by the standard deviation of its returns over the measurement period.

* For the purposes of this Investment Committee report, FINRA's investment portfolio includes the FINRA Investor Education Foundation's investments and investments net of their related receivables and payables on the consolidated balance sheet. The values reported exclude Section 31 fees received but not yet remitted to the U.S. Department of Treasury.



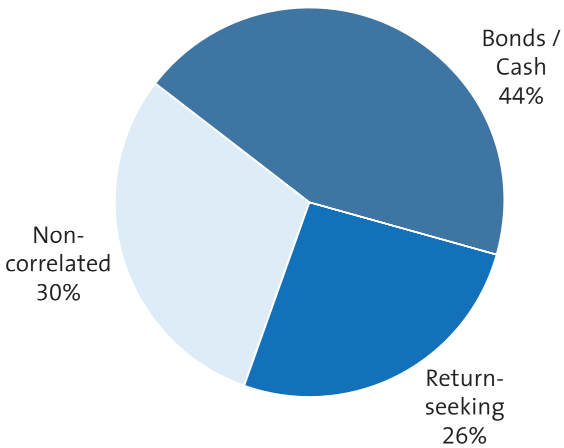
As shown above, FINRA's investment portfolio matched a portfolio of high-quality, U.S. bonds over the rolling 3-year period, while at the same time exhibiting slightly less volatility. While the portfolio did not keep up with higher-returning equity markets, the inherent risk borne by the portfolio has been significantly lower, in line with the portfolio's investment objectives.

FINRA invests its financial reserves with the objective of creating a conservative, low-volatility portfolio designed to deliver low-to-moderate returns over the medium-term in order to support ongoing business operations. Due to the high correlation of FINRA's operating revenues with traditional equity and bond markets, it is important to diversify the portfolio's investments away from these market segments. While this diversification led to the portfolio's relative underperformance of traditional stock and bond markets in 2019, we continue to believe that this approach generally remains appropriate for FINRA. In late 2019, FINRA's Board of Governors approved a recommendation from the Investment Committee to make some modifications to the portfolio's long-term asset allocation targets, while maintaining the overall risk and return framework.

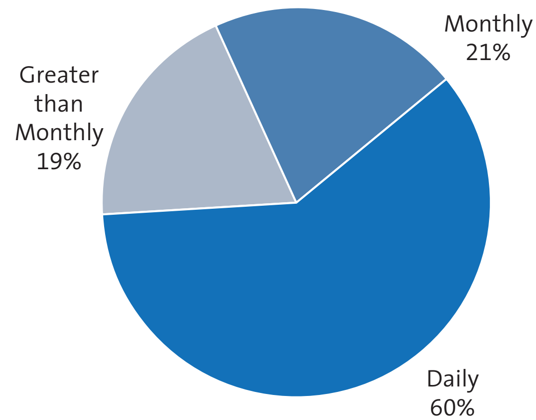
Investment Committee Report (continued)

The charts below show portfolio exposures and general liquidity as of December 31, 2019. Primary exposures are 44 percent bonds/cash, 26 percent return-seeking investments, and 30 percent in non-correlated assets. Over half of the portfolio can be made available on a daily basis.

Exposures as of December 31, 2019



Liquidity as of December 31, 2019



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. FINRA's investment strategy limits the direct ownership of investment assets to debt securities, mutual and commingled funds, Treasury futures, limited partnership interests and shares in pooled investment funds. Within our fixed income portfolio, all securities in 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. Our investments in public and private funds are each maintained as a pooled vehicle in which FINRA has neither management discretion nor direct ownership of the underlying investments.

Third-party providers make all implementation decisions within the portfolio. With respect to internal activities, the oversight and management of the portfolio is performed by the Investment Committee and limited to essential staff only, so that no individual in the regulatory arm of the organization has access to information regarding the securities within our investment portfolio.

Members of the Investment Committee:

John B. Ehnes, Chair
Richard J. Flannery
William H. Heyman
Joshua S. Levine
Charles I. Plosser
George (Gus) Sauter
John W. Thiel

June 30, 2020

Audit Committee Report

Year Ended December 31, 2019

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 U.S. 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 Eileen K. Murray is an audit committee financial expert, as defined by the SEC.

During 2019, the Audit Committee met nine times.

The Charter and the By-Laws of FINRA make the Chief Audit Executive directly responsible to the Audit Committee. In all material respects, the Charter complies with standards applicable to publicly-owned companies. (The Charter for the FINRA Audit Committee is available at: *https://www.finra.org/about/governance/standing-committees/audit-committee-charter*.)

Additionally, the Charter gives the Audit Committee responsibility for monitoring the independence of the independent auditor, recommending the appointment of the independent auditor for approval by the Board, ensuring sufficient scope of independent auditor activities to perform an adequate financial statement audit and ensuring the independent auditor is fairly and appropriately compensated for its effort. The Charter 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 Audit Committee discusses significant areas of the audit engagement with the independent auditor, with and without management present, as needed.

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.

In conducting its formal annual assessment of the independent auditor, Audit Committee considerations include, but are not limited to, the following factors: (i) the most recent results from surveys conducted by management regarding the performance of the independent auditor, incorporating audit quality, the experience of the engagement team, reasonableness of audit cost, Public Company Accounting Oversight Board (PCAOB) inspection results of the independent auditor and the ongoing strength of the independent audit firm's reputation; (ii) the length of time the firm has served as FINRA's independent auditor; and (iii) the timeliness of the independent auditor in escalating issues and reporting results to and answering questions posed by the Audit Committee.

The lead audit partner, having primary responsibility for the audit, rotates off the engagement every five years, and the Audit Committee is involved in the selection of the lead audit partner. The current lead audit partner was appointed in July 2016.

Ernst & Young LLP (EY) has served as FINRA's auditor since 1986.

Audit Committee Report (continued)

The Audit Committee obtained a written statement from 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, including non-audit 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:

	2019	2018 (1)
Audit services (2)	$ 1,144,500	$1,080,000
Audit-related services (3)	397,000	289,300
Tax services (4)	257,500	130,770
All other services (5)	450,000	—
Total	$2,249,000	$ 1,500,070

(1) FINRA has updated the 2018 fees from the prior year's report to reflect final amounts paid for the 2018 approved services.

(2) For 2019 and 2018, audit services represent the consolidated financial statement audit.

(3) Audit and attest services provided to FINRA and subsidiaries, including FINRA CAT, LLC for 2019.

(4) Tax services represent fees related to tax return preparation and review services in connection with the 2019 and 2018 Form 990s and related Form 990-Ts, as well as other tax compliance, advice and planning.

(5) All other services represent advisory services to assess contract compliance related to a FINRA subsidiary.

The Audit Committee discussed and reviewed with the independent auditor all communications required by applicable professional standards. Further, the Audit Committee has reviewed and discussed with management and EY, with and without management present, the consolidated audited financial statements as of December 31, 2019, and EY's report on the consolidated financial statements. Based on those discussions, the Audit Committee recommended to the Board that FINRA's audited consolidated financial statements be included in the Annual Report for the year ended December 31, 2019.

Members of the Audit Committee:

Eileen K. Murray, Chair
Lance F. Drummond
John B. Ehnes
Christopher W. Flint

June 30, 2020

Management Compensation Committee Report

Year Ended December 31, 2019

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. FINRA is committed to attracting and retaining talent through offerings of programs and services in addition to compensation. FINRA focuses on employee well-being and provides an inclusive workplace that encourages career enhancement and personal growth.

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 value that those skills would command on the open market. Ultimately, in assessing how to value 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.

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 is the most likely sector 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 solely of public members of the Board of Governors (Board), is responsible for approving salary levels and incentive compensation ranges for top-level executives. In determining salary and incentive compensation, management and the Committee consider operational, strategic and financial factors in addition to individual performance. Compensation determinations have no direct relationship to fines or changes in membership fees. The salary and incentive compensation recommendations for the CEO are reviewed and approved by the Board annually. The Committee met six times during 2019.

The Committee has the sole right and responsibility to hire and terminate a compensation consultant. Through August 2019, 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. Effective August 2019, the Committee engaged Meridian Compensation Partners, LLC (Meridian), an independent third-party compensation consultant, to perform these services. To ensure the independence of Mercer and Meridian, during their engagement by the Committee:

- Mercer and Meridian reported directly and exclusively to the Committee;
- no Mercer or Meridian employee is hired by FINRA;
- Mercer and Meridian provide no significant services, other than compensation consulting services, to FINRA;
- any interaction between Mercer, Meridian 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 and Meridian 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/Meridian 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 composed 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.

Management Compensation Committee Report (continued)

Summary Compensation Table

The following table presents actual 2019 and 2018 compensation data in the year paid (all amounts are in dollars). The 2020 salary information represents the base annual salary at which the named executives, as of June 30, 2020, are compensated. It does not represent 2020 year-to-date earnings. The 2020 incentive compensation amounts represent the actual payment in March 2020 based on 2019 performance. Other amounts, including deferred compensation and other benefits, are not presented for 2020, as these accumulate over the course of the year and final amounts are not determined until year-end. The top five executives are determined based on total 2020 salary and incentive compensation as described above. Compensation information for additional key executives is reported in FINRA's annual Form 990 *Return of Organization Exempt from Income Tax.*

Name and principal position		Salary (1)	Incentive compensation (2)	Other compensation and deferrals (3)	Other benefits (4)	Total
Robert W. Cook	2020	1,000,000	1,500,000	*	*	2,500,000
President and Chief Executive Officer	2019	1,000,000	1,500,000	632,966	25,326	3,158,292 (5)
	2018	1,000,000	1,350,000	520,268	10,104	2,880,372 (6)
Todd T. Diganci	2020	610,000	700,000	*	*	1,310,000
EVP – Chief Financial and	2019	600,000	685,000	1,327,263	50,930	2,663,193
Administrative Officer	2018	600,000	625,500	(97,868)	25,683	1,153,315
Steven J. Randich	2020	510,000	650,000	*	*	1,160,000
EVP and Chief Information Officer	2019	500,000	580,000	243,302	28,296	1,351,598
	2018	500,000	527,000	254,822	35,101	1,316,923
Robert L.D. Colby	2020	510,000	545,000	*	*	1,055,000
EVP and Chief Legal Officer	2019	500,000	500,000	143,072	20,221	1,163,293
	2018	500,000	441,000	169,249	42,414	1,152,663
Bari Havlik	2020	500,000	625,000	*	*	1,125,000
EVP, Member Supervision	2019	487,115	475,000 (7)	140,138	28,188	1,130,441
	2018	301,443	—	35,750	210,486	547,679

* 2020 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.

1 2020 salary information represents the executives' current base annual rate of pay as of June 30, 2020.

2 Incentive compensation is generally paid in March based on the prior year's performance.

3 Other compensation and deferral reporting aligns with Form 990 disclosure requirements and includes retirement plan valuation changes, company contributions and accruals, as well as retention bonuses. Retirement plan valuation changes for the defined benefit participants (*e.g.*, Mr. Diganci), both positive and negative, have been largely driven by recent fluctuations in discount rates and other actuarial factors, and are expected to continue to fluctuate year to year. Certain 2018 amounts have been restated for consistent presentation with changes to FINRA's reporting of defined benefit plans in its Form 990.

4 Other benefits include taxable and non-taxable health and welfare benefits such as employer-paid health, life and disability insurance, which are generally available to all employees. They also include relocation and other miscellaneous fringe benefits.

5 In 2019, Mr. Cook contributed $150,000 of his 2018 incentive compensation (less estimated taxes payable by him) to the FINRA Investor Education Foundation. After consideration of this contribution, Mr. Cook's total compensation for 2019 was effectively $3,008,292.

6 In 2018, Mr. Cook contributed $675,000 of his 2017 incentive compensation (less estimated taxes payable by him) to the FINRA Investor Education Foundation. After consideration of this contribution, Mr. Cook's total compensation for 2018 was effectively $2,205,372.

7 Reflects a partial year incentive payment for Mrs. Havlik who joined FINRA after the beginning of 2018.

Management Compensation Committee Report (continued)

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, 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, employees may receive miscellaneous taxable fringe benefits that include parking, travel subsidies and similar minor items.

Members of the Management Compensation Committee:

William H. Heyman, Chair
Lance F. Drummond
Eileen K. Murray
Hillary A. Sale

June 30, 2020

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 President and Chief Executive Officer and the Chief Financial and Administrative Officer, FINRA's management assessed the effectiveness of FINRA's internal control over financial reporting as of December 31, 2019. This evaluation included, among other things, reviews of the documentation of controls, evaluations of the design effectiveness of controls and reviews of evidence supporting the operating effectiveness of controls. Based on this assessment, we conclude that FINRA maintained effective internal control over financial reporting as of December 31, 2019.

June 30, 2020

Robert W. Cook
President and Chief Executive Officer

Todd T. Diganci
Executive Vice President – Chief Financial and
Administrative Officer

Report of Independent Registered Public Accounting Firm

To the Board of Governors of
Financial Industry Regulatory Authority, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of the Financial Industry Regulatory Authority, Inc. ("FINRA" or "the Company") as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of FINRA at December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of FINRA's management. Our responsibility is to express an opinion on FINRA's financial statements based on our audits. We are required to be independent with respect to FINRA in accordance with the relevant ethical requirements relating to our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Ernst + Young LLP

We have served as FINRA's auditor since 1986.

Tysons, Virginia
June 30, 2020

FINRA Consolidated Balance Sheets

(In millions)

	December 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 374.6	$ 298.7
Cash held at Consolidated Entity	13.0	9.9
Investments:		
Fixed income, at fair value	617.5	524.9
Equity, at fair value	356.9	350.7
Receivables, net	129.8	118.6
Investments receivable	5.2	0.2
Other current assets	25.2	23.3
Total current assets	1,522.2	1,326.3
Property and equipment:		
Land, buildings and improvements	128.6	127.2
Data-processing equipment and software	137.7	130.1
Furniture, equipment and leasehold improvements	67.5	69.4
	333.8	326.7
Less accumulated depreciation and amortization	(214.5)	(212.7)
Total property and equipment, net	119.3	114.0
Other investments:		
Pooled investment funds, at fair value	451.0	373.3
Investments of Consolidated Entity, at fair value	217.3	395.6
All other	0.3	0.3
Other assets	28.8	30.0
Total assets	$2,338.9	$2,239.5

See accompanying notes.

FINRA Consolidated Balance Sheets (continued)

(In millions)

	December 31, 2019	December 31, 2018
Liabilities and equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 32.0	$ 27.0
Accrued personnel and benefit costs	245.5	200.3
Deferred revenue	60.2	66.0
Deposits and renewals	77.7	71.4
Investments payable	1.6	1.7
Other current liabilities	7.6	8.1
Activity assessment fee payable	195.8	140.4
Total current liabilities	620.4	514.9
Accrued pension and other postretirement benefit costs	209.0	147.4
Deferred revenue	—	13.8
Long-term debt	12.8	14.0
Other liabilities	36.2	25.0
Total liabilities	878.4	715.1
Equity	1,580.8	1,606.6
Accumulated other comprehensive loss		
Unrealized loss on available-for-sale investments	—	(0.6)
Net unrecognized employee benefit plan amounts	(120.3)	(81.6)
Total accumulated other comprehensive loss	(120.3)	(82.2)
Total equity	1,460.5	1,524.4
Total liabilities and equity	$2,338.9	$ 2,239.5

See accompanying notes.

FINRA Consolidated Statements of Operations

(In millions)

	Years Ended December 31,	
	2019	2018
Revenues		
Operating revenues		
Regulatory revenues	$ 483.6	$ 466.1
User revenues	290.1	296.3
Contract services revenues	125.3	95.0
Total operating revenues	899.0	857.4
Fines	39.5	61.0
Activity assessment revenues	533.0	531.4
Total revenues	1,471.5	1,449.8
Activity assessment cost of revenues	(533.0)	(531.3)
Net revenues	938.5	918.5
Expenses		
Compensation and benefits	758.5	688.7
Professional and contract services	165.3	134.5
Cloud computing, hardware and software	65.7	53.7
Occupancy	40.5	38.3
Depreciation and amortization	16.9	16.4
General and administrative	48.1	43.1
Total expenses	1,095.0	974.7
Interest and dividend income	32.9	27.6
Operating loss	(123.6)	(28.6)
Other income (expense)		
Net realized and unrealized investment gains (losses)	90.9	(51.1)
Equity method earnings from other investments	—	12.0
Other expense	(13.2)	(1.0)
Net loss	$ (45.9)	$ (68.7)

See accompanying notes.

FINRA Consolidated Statements of Comprehensive Loss

(In millions)

	Years Ended December 31,	
	2019	2018
Net loss	$ (45.9)	$(68.7)
Change in unrealized gain or loss on available-for-sale investments	—	(32.6)
Employee benefit plan adjustments	(38.7)	29.8
Comprehensive loss	$(84.6)	$ (71.5)

See accompanying notes.

FINRA Consolidated Statements of Changes in Equity

(In millions)

	Equity	Accumulated Other Comprehensive Loss: Unrealized Gain (Loss) on Available-for-Sale Investments	Accumulated Other Comprehensive Loss: Net Unrecognized Employee Benefit Plan Amounts	Total
Balance, January 1, 2018	$ 1,675.3	$ 32.0	$ (111.4)	$1,595.9
Comprehensive loss	(68.7)	(32.6)	29.8	(71.5)
Balance, December 31, 2018	1,606.6	(0.6)	(81.6)	1,524.4
Cumulative effect from change in accounting policies (1)	20.1	0.6	—	20.7
Comprehensive loss	(45.9)	—	(38.7)	(84.6)
Balance, December 31, 2019	$1,580.8	$ —	$(120.3)	$1,460.5

(1) Effective January 1, 2019, we adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. See Note 2, "Summary of Significant Accounting Policies," for more information.

See accompanying notes.

FINRA Consolidated Statements of Cash Flows

(In millions)

	Years Ended December 31,	
	2019	2018
Reconciliation of net loss to cash provided by operating activities		
Net loss	$ (45.9)	$(68.7)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	16.9	16.4
Net realized and unrealized investment (gains) losses	(90.9)	51.1
Equity method investments	—	54.6
Bad debt expense	3.6	3.5
Other	1.5	0.4
Net change in operating assets and liabilities:		
Receivables, net	(14.8)	24.1
Other current assets	(1.9)	(0.6)
Other assets	(0.3)	1.2
Accounts payable and accrued expenses	5.0	(2.1)
Accrued personnel and benefit costs	45.2	7.4
Deferred revenue	1.1	0.9
Deposits and renewals	6.3	1.2
Activity assessment fee payable	55.4	(55.5)
Other current liabilities	(0.5)	0.4
Accrued pension and other postretirement benefit costs	22.9	(6.5)
Other liabilities	11.2	(5.3)
Net cash provided by operating activities	$ 14.8	$ 22.5

See accompanying notes.

FINRA Consolidated Statements of Cash Flows (continued)

(In millions)

	Years Ended December 31, 2019	2018
Cash flow from investing activities		
Net purchases of fixed income securities	$ (72.9)	$ (141.9)
Proceeds from redemptions of equity investments	87.4	22.9
Purchases of equity investments	(15.2)	(35.5)
Equity method investments	0.1	167.3
Purchases of other investments	(153.5)	(100.0)
Proceeds from redemptions of other investments	37.5	—
Net purchases of property and equipment	(20.4)	(25.2)
Other	(1.9)	(2.2)
Cash flow from investing activities of the Consolidated Entity:		
Purchases of other investments	(43.0)	(16.7)
Proceeds of redemptions of other investments	247.2	84.6
Cash contribution at fund transfer date	—	22.3
Net cash provided by (used in) investing activities	65.3	(24.4)
Cash flow from financing activities		
Principal payment on long-term debt	(1.1)	(1.2)
Net cash used in financing activities	(1.1)	(1.2)
Increase (decrease) in cash and cash equivalents	79.0	(3.1)
Cash and cash equivalents at beginning of year	308.6	311.7
Cash and cash equivalents at end of year	$ 387.6	$ 308.6

See accompanying notes.

FINRA 2019 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 CAT, LLC (FINRA CAT), and the 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 a self-regulatory organization (SRO) for brokerage firms doing business with the public in the United States. We regulate the activities of U.S. broker-dealers and perform market regulation pursuant to our own statutory responsibility and under contract for certain exchanges. Our statutory regulatory functions include examinations of securities firms, continuous surveillance of markets, reviews of fraud allegations and disciplinary actions against firms and registered representatives. FINRA's examination process is risk-based, meaning our approach for identifying firms for examination is based upon risk, scale and scope of firm operations. We conduct examinations to determine whether firms are in compliance with federal securities law and FINRA rules, as well as in response to investor complaints, terminations of brokerage employees for cause, arbitrations and referrals from other regulators. FINRA operates unique equity and options cross-market surveillance programs. Employing advanced technology, these programs collect and integrate trading data across exchanges and alternative trading systems to detect potential market manipulation and other rule violations. We conduct heightened and expedited investigations of allegations of serious fraud to prevent further harm to investors. We bring disciplinary actions against firms and their employees that may result in sanctions, including censures, fines, suspensions and, in egregious cases, expulsions or bars from the industry. In appropriate cases, we require firms and individuals to provide restitution to harmed investors and often impose other conditions on a firm's business to prevent repeated wrongdoing.

We perform market regulation services under contract for the New York Stock Exchange LLC (NYSE), NYSE Arca, Inc. (NYSE Arca), NYSE American, LLC (NYSE American), NYSE Chicago, Inc. (NYSE Chicago), NYSE National, Inc. (NYSE National), The Nasdaq Stock Market LLC (Nasdaq), Nasdaq BX, Inc. (Boston), Nasdaq PHLX LLC (Philadelphia), Nasdaq ISE, LLC, Nasdaq GEMX, LLC, Nasdaq MRX, LLC, Cboe Global Markets, Inc. (the Cboe, C2, BZX, BYX, EDGA and EDGX exchanges), The Investors Exchange (IEX), the Boston Options Exchange, LLC (BOX), and the Miami International Securities Exchange, LLC (MIAX Options), MIAX EMERALD LLC (MIAX EMERALD), and MIAX PEARL LLC (MIAX PEARL). We also regulate the over-the-counter (OTC) securities markets for listed and unlisted equities and the OTC markets for corporate bonds, Treasury Securities and other government agency instruments, asset-backed 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, broker-dealers and individual brokers. 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 operational and support services to firms, other SROs, the U.S. Securities and 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 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 market information, so they can more effectively assess 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

FINRA 2019 Notes to Consolidated Financial Statements

1. ORGANIZATION AND NATURE OF OPERATIONS (CONTINUED)

securities, the OTC Reporting Facility™ (ORF™) and OTC Bulletin Board® (OTCBB®) for equity securities not listed on an exchange and the 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 trade information for equity and debt securities and quotes for certain equity securities.

FINRA CAT is responsible for all aspects of the build, maintenance and operation of the Consolidated Audit Trail (CAT), which will allow regulators to improve securities market surveillance by creating an extensive audit trail of trades, quotes and orders for all U.S. exchange-listed and OTC equity securities across all U.S. markets and trading venues. The CAT will also collect the same data for all U.S. exchange-listed options.

The Foundation empowers underserved Americans with the knowledge, skills and tools to make sound financial decisions throughout life. The Foundation accomplishes this mission through educational programs and research that help consumers achieve their financial goals and that protect them in a complex and dynamic world.

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 the Company, its wholly owned subsidiaries and the Consolidated Entity.

During 2018, we transferred all of our interest in a Limited Partnership (the Limited Partnership) to the Consolidated Entity, a variable interest entity (VIE) for which the Company is the primary beneficiary. The Limited Partnership was accounted for under the equity method. We account for the Consolidated Entity as an investment company that follows the industry specialized basis of accounting established by U.S. GAAP.

All intercompany balances and transactions have been eliminated in consolidation.

RECLASSIFICATIONS

As a result of the adoption of new accounting pronouncements, the consolidated financial statements for the prior year reflect reclassifications to conform to the 2019 presentations. Specifically, equity investments that were previously classified as trading securities are now classified as equity investments in the consolidated financial statements. All fixed income investments previously classified as trading securities are now classified as fixed income investments in the consolidated financial statements. In addition, the components of net periodic benefit expense excluding service cost related to our pension and other postretirement plans were reclassified from compensation and benefits expense to other expense in the consolidated statements of operations.

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, 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.

CONSOLIDATION

FINRA consolidates any VIE in which it is deemed to be the primary beneficiary and reflects the assets, liabilities, revenues, expenses and cash flows of the consolidated VIE on the consolidated financial statements. An entity is determined to be the primary beneficiary if it holds a controlling financial interest. A controlling financial interest is defined as (a) the power

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

to direct the activities of a VIE that most significantly impact the entity's economic performance; and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The consolidation guidance requires an analysis to determine (a) whether an entity in which the Company holds a variable interest is a VIE; and (b) whether the Company's involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests such as management and performance-based fees, would give it a controlling financial interest. Performance of that analysis requires the exercise of judgment.

The Company determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a VIE and reconsiders that conclusion at each reporting date. In evaluating whether the Company is the primary beneficiary, FINRA evaluates its economic interests in the entity held either directly by the Company or indirectly through related parties. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that the Company is not the primary beneficiary, a quantitative analysis may also be performed.

Investments and redemptions (either by the Company, affiliates of the Company or third parties) or amendments to the governing documents of a VIE could affect an entity's status as a VIE or the determination of the primary beneficiary. At each reporting date, the Company assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly.

CASH AND CASH EQUIVALENTS

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

Additionally, cash held at the Consolidated Entity may include overnight investments and money market funds held with financial institutions. As of December 31, 2019 and 2018, the Consolidated Entity held no cash and cash equivalents in foreign currencies. Cash held at the Consolidated Entity represents cash that may only be used to settle obligations of the Consolidated Entity. Although not legally restricted, this cash is not available to fund the general liquidity needs of FINRA.

INVESTMENTS

Fixed Income Investments

At the time of purchase, we classify individual fixed income investments 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, and re-evaluate the classification at each balance sheet date. As of December 31, 2019, all of our fixed income investments were classified as trading. Trading securities are carried at fair value, with changes in fair value recorded as a component of net realized and unrealized investment gains (losses) 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.

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.

Equity Investments

Effective January 1, 2019, we carry substantially all of our equity security investments at fair value and record the subsequent changes in fair value in the consolidated statement of operations as a component of net realized and

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

unrealized investment gains (losses). Prior to January 1, 2019, substantially all of our equity security investments were classified as either trading or available-for-sale and were also carried at fair value. However, we recorded the periodic changes in fair value of those investments classified as available-for-sale as components of other comprehensive loss, and we recorded gains and losses in the consolidated statements of operations when they were sold or were other-than-temporarily impaired.

Other Investments

Investments held in the Consolidated Entity include pooled investment vehicles without a readily determinable fair value. These investments are generally valued at the most recent net asset value per unit or capital account information from the general partners of such vehicles. Investment transactions are accounted for on a trade-date basis. For the purposes of determining net realized gains and losses, the Consolidated Entity uses a specific identification methodology.

FINRA elected the fair value option for its investments in pooled investment funds to better reflect the value of these investments. Such election is irrevocable and applied on a financial instrument by financial instrument basis at initial recognition. These pooled investment funds calculate net asset value per share (or its equivalent) as the investment account value in the absence of readily ascertainable market values to determine fair value. Interest and dividends are recorded when reported to us.

RECEIVABLES, NET

The Company's receivables are primarily concentrated with FINRA-registered firms, associated persons and exchanges. The consolidated financial statements present receivables net of an allowance for uncollectible accounts. As of December 31, 2019 and 2018, an allowance for uncollectible accounts of $8.4 million and $9.9 million, respectively, was presented in the accompanying consolidated balance sheets within receivables, net. 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, 2019 and 2018, primarily related 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 collectability 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 and amortization as follows:

Asset category	Depreciation/amortization method	Estimated useful lives
Buildings and improvements	Straight-line	10 to 40 years
Data-processing equipment and software	Straight-line	2 to 5 years
Furniture and equipment	Straight-line	5 to 10 years
Leasehold improvements	Straight-line	Shorter of term of lease or useful life of improvement

Depreciation and amortization expense for property and equipment totaled $10.4 million and $11.4 million for 2019 and 2018, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SOFTWARE COSTS

FINRA capitalizes internal use software development costs incurred during the application development stage. 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 hardware, and amortize them using the straight-line method over their estimated useful life, generally three to five years. We expense all other purchased software as incurred.

Unamortized capitalized software development costs of $29.8 million and $18 million as of December 31, 2019 and 2018, were included in the consolidated balance sheets within total property and equipment, net. There were $16.5 million and $5.7 million of net additions to capitalized software related to 2019 and 2018. Amortization of capitalized internal use software costs totaled $4.7 million and $2.6 million related to 2019 and 2018 and was included in depreciation and amortization in the consolidated statements of operations.

IMPAIRMENT OF LONG-LIVED ASSETS

We review our long-lived assets for impairment whenever facts and circumstances indicate that long-lived assets or other assets may be impaired. If indicators are present, 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 fails the recoverability test, we would then prepare a discounted cash flow analysis to estimate fair value and the amount of any impairment. In 2019 and 2018, there were no indicators of long-lived asset impairment, and no impairment charges were recognized.

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 that states and other SROs charge.

ACTIVITY ASSESSMENT FEE PAYABLE

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 TRFs and ORF. We remit these activity assessment fees to the U.S. Department of 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. As of December 31, 2019 and 2018, we had $51.9 million and $36 million, respectively, of activity assessment fee receivables presented in the accompanying consolidated balance sheets within receivables, net.

INTEREST AND DIVIDEND INCOME

FINRA recognizes interest income from cash, fixed income and equity investments as it is earned. Dividend income is recognized on the ex-dividend date. Interest and dividend income from the Consolidated Entity is accounted for in the same manner.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CLOUD COMPUTING

We account for our cloud computing arrangement as a service contract and expense applicable costs as incurred. As our hosting arrangement does not give us the contractual right to the software at any time during the hosting period without penalty, we are not deemed to have a software license. Cloud computing costs totaled $27.4 million and $19.9 million for the years ended December 31, 2019 and 2018, respectively, and were included in cloud computing, hardware and software expenses in the consolidated statements of operations.

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 offer access to retiree medical coverage for eligible retirees and their dependents. Eligible retirees pay the full premium cost to be enrolled in the Company's retiree medical coverage. Additionally, we provide a Retiree Medical Savings Plan to help our retirees offset health care premiums during retirement. Under the Retiree Medical Savings Plan, employer-funded defined contribution Retiree Medical Accounts are created for eligible employees 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 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.

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 related to the ERP may materially affect our financial position. A 25 basis-point increase (decrease) in the discount rate assumption as of December 31, 2019, would cause the ERP projected benefit obligation to decrease (increase) by approximately $22.1 million.

INCOME TAXES

FINRA and FINRA REG are tax-exempt organizations under Internal Revenue Code (IRC) Section 501(c)(6). FINRA CAT is treated as a disregarded entity for federal income tax purposes in accordance with single member limited liability company rules. 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

The Consolidated Entity has elected to be taxed as a Partnership for U.S. federal tax purposes. FINRA is responsible for reporting income or loss from the Consolidated Entity, to the extent required by the federal and state income tax laws, for income tax purposes.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject us to concentrations of credit risk consist of cash and cash equivalents, 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 collectability 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 fixed income and certain equity investments.

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 consists of investments in predominantly investment grade debt securities, mutual and commingled funds containing equity securities and other investments.

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

At December 31, 2019 and 2018, substantially all of the Consolidated Entity's cash, investments in securities and amounts due from brokers are positions with and amounts due from its clearing brokers. Risks with respect to the Consolidated Entity include market risk as a result of changes in the market or fair value of a particular financial instrument, and credit risk from the potential loss should the counterparties fail to perform pursuant to the terms of their obligations. The Consolidated Entity minimizes these risks by carrying out investment transactions through established and reputable institutions.

RECENT ACCOUNTING PRONOUNCEMENTS

New accounting pronouncements adopted in 2019

On January 1, 2019, we adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU 2016-01, *Financial Instruments—Recognition and Measurement of Financial Assets and Financial Liabilities.* Prior year financial statements were not restated. A summary of the effects of the initial adoption of ASU 2014-09 and ASU 2016-01 follows.

	ASU 2014-09	ASU 2016-01	Total
		(in millions)	
Increase (decrease):			
Liabilities (deferred revenue)	$(20.7)	$ —	$(20.7)
Accumulated other comprehensive income	—	0.6	0.6
Equity	20.7	(0.6)	20.1

We adopted ASU 2014-09 on a modified retrospective basis as of January 1, 2019. Under this method of adoption, prior period information for 2018 was not adjusted. We recorded a cumulative-effect adjustment that increased the beginning balance of equity by $20.7 million on January 1, 2019, and changed the presentation of certain revenues prospectively. The

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

cumulative-effect adjustment represents the release of previously deferred initial registration fees that no longer qualify for deferral under the ASU.

With respect to ASU 2016-01, beginning in 2019, unrealized gains and losses from the changes in the fair value of our equity securities during the period are included within net realized and unrealized investment gains (losses) in the consolidated statements of operations. Prior to January 1, 2019, we recognized gains and losses in earnings when we sold equity securities and for other-than-temporary impairment losses and we recorded unrealized gains and losses from the changes in fair value of such securities in other comprehensive loss. As of January 1, 2019, we reclassified net unrealized losses on equity securities from accumulated other comprehensive loss to equity.

The following accounting pronouncements have been adopted by FINRA on January 1, 2019, with no material effect on our consolidated financial statements:

- ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*
- ASU 2016-16, *Income Taxes (Topic 710): Intra-Entity Transfers of Assets Other Than Inventory*
- ASU 2017-06, *Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting (a consensus of the Emerging Issues Task Force)*
- ASU 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*

New accounting pronouncements to be adopted subsequent to December 31, 2019

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases*. The ASU requires lessees to put most leases on their balance sheets but recognize expenses on their statements of operations in a manner similar to today's accounting. The ASU also eliminates today's real estate-specific provisions for all entities. For lessors, the ASU modifies the classification criteria and the accounting for sales-type and direct financing leases. Since the issuance of the ASU, various updates and amendments have been issued including a second deferral of the effective date for entities that are not public business entities. The current effective date for FINRA is January 1, 2022. Early adoption is permitted; however, we do not intend to early adopt the ASU. We are currently completing a diagnostic assessment of the ASU based on our current inventory of leases. We are planning to elect the additional transition option, which allows entities to not apply the new leases standard in the comparative period they present in their financial statements in the year of adoption. We are currently assessing the impact that the ASU will have on our consolidated financial statements.

In July 2016, the FASB issued the final guidance on credit losses, ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which will significantly change how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. Entities will be required to use a new forward-looking "expected loss" model and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. This approach will apply to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt securities, net investments in leases and off-balance-sheet credit exposures. The ASU will also require significantly more disclosures to be made in an entity's financial statements. Since the issuance of the ASU, various updates and amendments have been issued, including a deferral of the effective date by one year for entities that are not public business entities. The current effective date for FINRA is January 1, 2023. Early adoption is permitted; however, we do not intend to early adopt the ASU. 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, for which we are still assessing the impact:

- ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*; effective for FINRA in 2020;
- ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*; effective for FINRA in 2021;
- ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*; effective for FINRA in 2022.

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

We recognize revenue when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. We generate all of our revenue from contracts with customers.

Disaggregation of revenue

The following table provides a summary of revenues by contract for the years ended December 31, 2019 and 2018, all of which is recognized over time.

	Years ended December 31,	
	2019	2018
	(in millions)	
FINRA rules and by-laws	$ 777.9	$ 790.1
Regulatory agreements	114.1	84.8
Testing services agreements	11.6	12.6
All other contracts	34.9	31.0
Net revenue	$ 938.5	$ 918.5

Our revenues are generally recognized over time as we perform services. We measure our progress in completing these services based upon the passage of time. This method faithfully depicts our performance of transferring control of the services to the customer as our customers simultaneously receive and consume the benefits provided by our performance.

The following is a description of our contracts with customers.

FINRA rules and by-laws

FINRA's rules and by-laws form the contract between FINRA and its members. Under this contract, we provide the following services to our members: i) oversight services; ii) member application, associated person registration and qualification services; and iii) transparency services. Oversight services include surveillance; member and market examinations; enforcement and disciplinary procedures; fraud detection; dispute resolution; and rulemaking and policies. Member application, associated person registration and qualification services include broker-dealer firm member applications; associated person and branch office registrations; and qualification exams and continuing education. Transparency services include the management and operation of FINRA's OTC market transparency facilities, such as TRACE and ORF, which provide the public and professionals with timely market information for debt and equity securities. Revenues related to FINRA's rules and by-laws are included in regulatory, fines and user revenues in our consolidated statements of operations.

Consideration is due as the services are rendered. Consideration for services provided in accordance with our rules and by-laws is variable, taking into account provisions for adjustments, refunds, rebates, fee waivers and penalties for late filings. Our estimate of variable consideration is not typically constrained, as the effects of such variable consideration are known to us prior to the release of our consolidated financial statements.

3. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

Regulatory agreements

We have various regulatory agreements through which we provide regulatory services, such as surveillance reviews, investigations, examinations and disciplinary functions. Pursuant to a contract with Consolidated Audit Trail, LLC, we are also responsible for all aspects of the build, maintenance and operation of the CAT, including recurring operations and production milestones, cloud hosting and customer account and database services. Revenues related to our regulatory agreements are included in contract services revenues in our consolidated statements of operations. Consideration is due as services are rendered. Consideration for services provided in accordance with our regulatory agreements is variable, taking into account provisions for cost of living adjustments, changes in the scope of services and changes in trading volumes. Our estimate of variable consideration related to our provision of regulatory services is not typically constrained, as the effects of such variable consideration are known to us prior to the release of our consolidated financial statements. Our estimate of variable consideration related to our CAT responsibilities is typically constrained by the amount of future milestone payments. We are required to update our estimate of variable consideration, including any constrained amounts, at the end of each reporting period to reflect our revised expectations of the amount of consideration to which we expect to be entitled.

Testing services agreements

We have testing services agreements for the benefit of investment advisers and mortgage brokers. Under these contracts, we provide testing registration, maintenance and delivery of qualification examinations. Revenues related to our testing services agreements are recorded in user and contract services revenues in our consolidated statements of operations. Consideration is due as services are rendered. Consideration for services provided in accordance with our testing services agreements is variable, taking into account provisions for base exam fees plus adjustments for the cancellation, no-show and rescheduling of exams. Our estimate of variable consideration is not typically constrained, as the effects of such variable consideration are known to us prior to the release of our consolidated financial statements.

All other contracts

All other contracts primarily include contracts related to our administration of the Investment Adviser Registration Depository program, provision of OTC data to the Nasdaq Unlisted Trading Privileges (UTP) plan, and maintenance of the mortgage licensing system FINRA developed for SRR. Consideration for these services is variable and due as services are rendered. Our estimate of variable consideration is not typically constrained, as the effects of such variable consideration are known to us prior to the release of our consolidated financial statements.

Contract balances

The following table provides information about receivables and contract liabilities from contracts with customers as of December 31, 2019 and 2018:

	As of December 31,	
	2019	2018
	(in millions)	
Receivables, net	$ 129.4	$ 118.1
Current deferred revenue	60.2	66.0
Non-current deferred revenue	—	13.8

See Note 2, “*Receivables, Net*” for additional information about our receivables balances.

3. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

Deferred revenue for the year ended December 31, 2019, primarily consists of prepayments of registration and renewal fees, annual assessments, and arbitration and mediation fees under FINRA's rules and by-laws. The revenue recognized from contract liabilities and the remaining balance is shown below:

	January 1, 2019	Cumulative effect of change in accounting principle (1)	Cash additions (2)	Revenue recognition	December 31, 2019
			(in millions)		
Registration and renewal (3)	$74.8	$(20.7)	$ 73.1	$ (71.5)	$ 55.7
Assessments (4)	—	—	269.3	(269.3)	—
Arbitration and mediation (5)	5.0	—	8.1	(8.6)	4.5
Total deferred revenue	$79.8	$(20.7)	$350.5	$(349.4)	$60.2

(1) The cumulative-effect adjustment represents the release of previously deferred initial registration fees that no longer qualify for deferral under ASU 2014-09.

(2) Additions reflect fees charged during the period.

(3) Fees are assessed for initial registrations, membership applications and renewals of FINRA member firms, registered representatives, principals and branch offices primarily to cover Web CRD system processing. These registration and renewal fees are amortized and recorded ratably over the annual period to which they apply.

(4) Annually, each FINRA member is charged assessments based on: 1) their gross income; and 2) the member's number of registered representatives and principals. These fees support the supervision and regulation of firms through examination, policy making, rulemaking and enforcement activities performed each year. These fees are amortized and recorded ratably over the annual period to which they apply.

(5) Arbitration and mediation filings and arbitration member surcharges provide a material right, access to FINRA's arbitration and mediation forums. As such, these fees are amortized and recorded over the period of benefit of the fee. We have determined the period of benefit to be the average turnaround time for an arbitration case (14 months) or mediation case (four months).

4. INVESTMENTS

FINRA owns a diverse investment portfolio consisting of 1) U.S. government (and state and local) securities; 2) mortgage-backed securities; 3) corporate and asset-backed securities; 4) mutual and commingled funds; 5) other investments (including pooled investment funds); and 6) other financial instruments. 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 a separately managed account and direct investments. FINRA's investment portfolio consisted of the following as of:

	December 31, 2019	December 31, 2018
	(in millions)	
Fixed income investments	$ 617.5	$ 524.9
Equity investments	356.9	350.7
Other investments:		
Pooled investment funds	451.0	373.3
Investments of Consolidated Entity	217.3	395.6
Other	0.3	0.3
Total other investments	668.6	769.2
Total	$1,643.0	$1,644.8

FIXED INCOME INVESTMENTS

During 2019, we classified our fixed income investments as trading based on their nature, and our intent and ability to sell or to hold the securities. Our fixed income portfolio was managed by an investment manager, who had the authority to buy and sell investments within FINRA-determined, pre-established parameters. Our fixed income investments, summarized based on the primary industry of the issuers, are disclosed in Note 5, "Fair Value Measurement."

EQUITY INVESTMENTS

FINRA's equity investments consisted of the following:

	Cost	Net unrealized gain (loss)	Fair value
		(in millions)	
As of December 31, 2019:			
Mutual funds	$ 145.8	$35.8	$ 181.6
Commingled funds	151.7	23.6	175.3
Total	$297.5	$59.4	$ 356.9
As of December 31, 2018:			
Mutual funds	$ 201.5	$ 6.5	$208.0
Commingled funds	148.0	(5.3)	142.7
Total	$349.5	$ 1.2	$ 350.7

4. INVESTMENTS (CONTINUED)

OTHER INVESTMENTS

As of December 31, 2019, our other investments consisted of investments of the Consolidated Entity and pooled investment funds for which the fair value option has been elected.

Consolidated Entity, Investments of the Consolidated Entity and Limited Partnership

On July 1, 2018, FINRA transferred all of its interest from the Limited Partnership to the Consolidated Entity. FINRA's pro-rata share of the Limited Partnership's cash and underlying investments were transferred in-kind at fair value to the Consolidated Entity, which represented our equity interest on July 1, 2018. No gain or loss was recognized. The objective of the Consolidated Entity is to maximize risk-adjusted returns over the long-term horizon through potential investment in a wide array of investments and strategies. FINRA holds a 100 percent equity interest in the Consolidated Entity, and the general partner of the Consolidated Entity is fully independent of FINRA management and its Board. The following table summarizes 2019 and 2018 activity related to the Limited Partnership and the Consolidated Entity.

	Limited Partnership	Consolidated Entity
	(in millions)	
Balance, January 1, 2018	$ 642.8	$ —
Equity earnings	12.0	—
Redemptions	(156.0)	—
Transfer of interest on July 1, 2018	(498.8)	498.8
Investment losses	—	(16.0)
Redemptions	—	(156.0)
Balance, December 31, 2018	—	326.8
Investment gains	—	29.0
Contributions	—	11.0
Redemptions	—	(148.1)
Balance, December 31, 2019	$ —	$ 218.7

As of December 31, 2019, the carrying value of the net assets and liabilities of the Consolidated Entity was $218.7 million, which represented its maximum risk of loss as of that date. The assets of the Consolidated Entity primarily consisted of cash and investments, while the liabilities primarily represented accrued expenses of the Consolidated Entity. The assets of the Consolidated Entity may be used only to settle obligations of the Consolidated Entity. In addition, there is no recourse to the Company for the Consolidated Entity's liabilities.

4. INVESTMENTS (CONTINUED)

Investments held by the Consolidated Entity, summarized below, primarily consist of limited partnerships managed by the investment manager of the Consolidated Entity, as well as hedge funds, private equity funds or similar investment vehicles managed by external managers directly or through subsidiary funds that are controlled by the investment manager of the Consolidated Entity. These investments are included in other investments in the accompanying consolidated balance sheets. The Consolidated Entity's net assets consist primarily of its investments accounted for at fair value; the majority of the Consolidated Entity's fair value measurements are based on the estimates made by the general partner of the Consolidated Entity. The investment strategy of these limited partnerships is multi-strategy.

	Fair value as of December 31, 2019	Fair value as a percentage of investments of Consolidated Entity as of December 31, 2019
	(in millions)	
Investments of Consolidated Entity		
North America		
HighVista Master Fund Limited Partnership	$102.8	47.3%
Other	114.5	52.7%
Total investments (cost $208.3 million)	$ 217.3	100.0%

As of December 31, 2019, no underlying investment held by these limited partnerships had a fair value that exceeded 5 percent of FINRA's total consolidated equity.

Prior to the aforementioned transfer in 2018, we accounted for the Limited Partnership using the equity method, and the equity earnings from the Limited Partnership were included in equity method earnings from other investments in the consolidated statements of operations.

Pooled Investment Funds

FINRA invests in pooled investment funds for which the fair value option was elected. The aggregate carrying amounts of these investments were included in other investments in the consolidated balance sheets. During the years ended December 31, 2019 and 2018, we made contributions of $153.5 million and $100 million, respectively, to these investment funds, and redemptions of $37.5 million during 2019. FINRA did not redeem from these investment funds during 2018. No interest and dividends were recorded during 2019 and 2018.

4. INVESTMENTS (CONTINUED)

INVESTMENT GAINS AND LOSSES

Investment gains (losses) for each of the two years ending December 31, 2019, are summarized below:

	Fixed income investments	Equity investments	Pooled investment funds	Investments of Consolidated Entity	Total
			(in millions)		
For the year ending December 31, 2019					
Unrealized investment gains (losses) on securities held at the end of the period	$ 22.3	$58.2	$(32.7)	$ 23.8	$ 71.6
Investment (losses) gains on securities sold during the period	(2.9)	16.4	(5.6)	7.6	15.5
Other gains	—	3.8	—	—	3.8
Total	$ 19.4	$78.4	$(38.3)	$ 31.4	$ 90.9
For the year ending December 31, 2018					
Unrealized investment losses on securities held at the end of the period	$ (11.6)	$ (3.6)	$(36.5)	$(14.8)	$(66.5)
Investment gains on securities sold during the period	1.5	0.4	—	1.2	3.1
Gross investment gains recognized	—	1.9	—	—	1.9
Other gains	0.1	10.3	—	—	10.4
Total	$(10.0)	$ 9.0	$(36.5)	$(13.6)	$ (51.1)

Realized and unrealized gains and losses on our investments, including investments of the Consolidated Entity, are included in net realized and unrealized gains (losses) in the consolidated statements of operations. Unrealized gains or losses result from changes in the fair value of these investments. Upon disposition of an investment, unrealized gains or losses are reversed and an offsetting realized gain or loss is recognized in the period the disposition occurs.

Prior to 2019, we recognized investment gains and losses in earnings when we sold or otherwise disposed of mutual and commingled funds, previously classified as available-for-sale investments, based on the difference between the proceeds from the sale and the cost of the securities and also when we recognized other-than temporary impairment losses. Beginning in 2019, the investment gains and losses include unrealized gains and losses from changes in fair value during the period on equity securities we still own. Prior to 2019, we recorded the changes in unrealized gains and losses on these investments in other comprehensive loss.

5. FAIR VALUE MEASUREMENT

The Company considers cash and cash equivalents, our investment portfolio, 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, 2019, and indicates the fair value hierarchy of the valuation techniques used to determine fair value:

		Fair Value Measurement at December 31, 2019 Measured Using	
Description	Total carrying amount in consolidated balance sheet December 31, 2019	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
		(in millions)	
Assets:			
Fixed income investments			
Corporate debt securities			
Banking	$ 105.9	$ —	$105.9
Industrial	91.1	—	91.1
Consumer non-cyclical	44.3	—	44.3
Other financial institutions	37.7	—	37.7
Utility	35.1	—	35.1
Collateralized mortgage obligations	112.6	—	112.6
Agency mortgage-backed securities			
FHLMC	53.2	—	53.2
Other	39.6	—	39.6
Government securities	55.1	—	55.1
Asset-backed securities	42.9	—	42.9
Equity investments			
Mutual funds			
U.S. equity	130.0	130.0	—
Other	51.6	51.6	—
Commingled funds			
International equity	99.9	—	99.9
U.S. equity	44.9	—	44.9
U.S. fixed income	30.5	—	30.5
Total assets in the fair value hierarchy	974.4	181.6	792.8
Pooled investment funds, measured at net asset value (a) (b)	451.0	—	—
Investments of Consolidated Entity (a) (c)	217.3	—	—
Total assets measured at fair value	$1,642.7	$ 181.6	$792.8

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, 2018, and indicates the fair value hierarchy of the valuation techniques used to determine fair value:

		Fair Value Measurement at December 31, 2018 Measured Using	
Description	Total carrying amount in consolidated balance sheet December 31, 2018	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
		(in millions)	
Assets:			
Fixed income investments			
Corporate debt securities			
Banking	$ 99.9	$ —	$ 99.9
Industrial	51.9	—	51.9
Consumer non-cyclical	46.5	—	46.5
Other financial institutions	34.6	—	34.6
Utility	34.5	—	34.5
Communication	21.3	—	21.3
Other	6.5	—	6.5
Agency mortgage-backed securities			
FHLMC	51.9	—	51.9
Other	28.9	—	28.9
Asset-backed securities	53.2	—	53.2
Collateralized mortgage obligations	49.4	—	49.4
Government securities	46.3	—	46.3
Equity investments			
Mutual funds			
U.S. equity	203.6	203.6	—
Other	4.4	4.4	—
Commingled funds			
International equity	81.7	—	81.7
U.S. equity	30.8	—	30.8
U.S. fixed income	30.2	—	30.2
Total assets in the fair value hierarchy	875.6	208.0	667.6
Pooled investment funds, measured at net asset value (a) (b)	373.3	—	—
Investments of Consolidated Entity (a) (c)	395.6	—	—
Total assets measured at fair value	$1,644.5	$208.0	$667.6

(a) In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share practical expedient have not been classified in the fair value hierarchy. The fair value amount presented in this table is intended to permit reconciliation of the fair value hierarchy to the fair value of assets presented in the consolidated balance sheets.

5. FAIR VALUE MEASUREMENT (CONTINUED)

(b) The Company invests in pooled investment funds for which the fair value option has been elected. These investments are offshore feeder funds in a "master-feeder" structure, and substantially all of their capital is invested in their respective master funds. The master funds' investment objectives include producing risk-adjusted returns while maintaining low correlation to traditional markets by taking long and short positions in major equities, fixed income, currencies and commodities markets offering a high level of liquidity, as well as investments in other pooled investment vehicles. These investments generally have a redemption notice period between three to 95 days, and shares may be redeemed on a semimonthly, monthly, or semiannually (June 30 and December 31) basis. We do not have any outstanding capital commitments related to these investments.

(c) The investments of the Consolidated Entity consist of limited partnerships managed by the investment manager of the Consolidated Entity as well as hedge funds, private equity funds or similar investment vehicles. These investments generally employ a diversified investment strategy. The fair value of the investments of the Consolidated Entity is measured at net asset value on the balance sheet date. The investment manager of the Consolidated Entity has a valuation committee consisting of its key officers and select members of the investment operations team for the investment manager. The valuation committee reviews and approves valuations for all investments for which the third-party administrator is unable to obtain a price independently. The Consolidated Entity had unfunded commitments through its investment in limited partnerships of $55.8 million and $46.8 million as of December 31, 2019 and 2018, respectively. Capital calls will be funded with available cash held by the Consolidated Entity or by liquidating investments of the Consolidated Entity, as needed. The underlying investments held by these limited partnerships may be subject to various levels of liquidity restrictions.

As of December 31, 2019 and 2018, we had no investments categorized in Level 3 of the fair value hierarchy.

Changes in the fair value of our fixed income, equity and other investments measured at net asset value are recorded as a component of net realized and unrealized investment gains (losses) in the consolidated statements of operations. Prior to 2019, temporary changes in the fair value of equity investments previously classified as available-for-sale securities were recognized as unrealized losses as a separate component of other comprehensive loss.

For the years ended December 31, 2019 and 2018, there were no transfers between Level 1, Level 2 or Level 3 of the fair value hierarchy.

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 investments 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 investments is categorized in Level 2 of the fair value hierarchy.

We independently validate the fair value measurement of our fixed income investments 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.

5. FAIR VALUE MEASUREMENT (CONTINUED)

Mutual Funds

Some of our mutual funds, which consist of funds invested in domestic bonds, domestic and international equities, and a life-cycle fund focused on asset allocation through investments in other mutual funds, primarily in bonds with the remainder in equities, relate to our deferred compensation plan for officers, our supplemental defined contribution plan for senior officers and our closed defined benefit SERP obligation. Additionally, we have a domestic mutual fund that invests in high-quality companies that have both the ability and the commitment to grow their dividends over time.

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 investments is categorized in Level 1 of the fair value hierarchy.

Commingled Funds

Our commingled funds employ a variety of strategies, including domestic and international equities and domestic fixed income securities.

These investments are valued at the quoted net asset value per unit, computed as of the close of business on the balance sheet date. Units of these investments are valued daily and a unit-holder's ability to transact in the funds' units occurs daily; however, units are not traded on an active exchange. As the fair value per unit is readily determinable, the valuation of these investments is categorized in Level 2 of the fair value hierarchy.

6. INCOME TAXES

FINRA and FINRA REG are tax-exempt organizations under IRC Section 501(c)(6). The Foundation is a tax-exempt organization under IRC Section 501(c)(4). FINRA CAT is treated as a disregarded entity for federal income tax purposes in accordance with single member limited liability company rules.

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 other consulting services.

NASD Holding, Inc. (NAHO), a wholly owned taxable subsidiary of FINRA prior to its liquidation in 2005, had net operating losses (NOLs) to which FINRA, as the parent organization, succeeded. The related deferred tax asset resulting from the transfer of the NAHO NOLs to FINRA was measured at $20.5 million based on federal tax rates then in effect, and FINRA recorded a valuation allowance equal to that amount. Aside from the NAHO NOLs, FINRA's deferred tax asset is primarily composed of losses related to other contractual work performed in the past. The deferred tax asset, which remains entirely reserved, is remeasured each period at rates expected to be in effect in the future period that the asset is used. As of December 31, 2019 and 2018, FINRA's deferred tax asset was $8.7 million and $10.4 million, respectively, based on federal unrelated business loss carryforwards of $41.5 million and $49.4 million, respectively, which are scheduled to expire beginning in 2022 through 2028.

6. INCOME TAXES (CONTINUED)

The following table summarizes the 2019 and 2018 activity related to the federal deferred tax asset and valuation allowance:

	Deferred tax asset—NOLs	Valuation allowance	Net deferred tax assets
		(in millions)	
Deferred tax asset, January 1, 2018	$10.8	$(10.8)	$—
2018 federal provision	(0.2)	0.2	—
Other	(0.2)	0.2	—
Deferred tax asset, December 31, 2018	10.4	(10.4)	—
2019 federal provision	(1.7)	1.7	—
Deferred tax asset, December 31, 2019	$ 8.7	$ (8.7)	$—

There were no other significant deferred tax assets related to unrelated business income. The 2019 and 2018 income tax provision of $2.5 million and $0.4 million, respectively, primarily represented the net change in deferred tax assets related to unrelated business loss carryforwards during the year in addition to state income tax and other minor adjustments. The income tax provision was included in other expense in the consolidated statements of operations.

We did not have any significant unrelated business income taxes payable in 2019 or 2018.

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. Measurement (step 2) occurs when 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. From 2016 through 2019, the years management considers to be open for examination by taxing authorities, management did not identify the existence of any uncertain tax positions related to current operations. Additionally, FINRA has not recognized any material uncertain tax positions related to the succession to the NAHO NOLs.

7. EMPLOYEE BENEFIT LIABILITIES

BENEFIT PLANS

The following table summarizes the benefit plans FINRA offers.

Plan	Eligible employees
Defined benefit ERP	As of January 1, 2020, fewer than 600 current employees not previously transitioned out of the plan (closed to new participants)
Defined benefit SERP	Fewer than 10 current senior executives not previously phased out of the plan in 2011 (closed to new participants)
Retiree medical plan	Eligible active employees, retirees and their dependents
Postretirement life insurance benefit plan	100 retirees who opted into the plan (closed to new participants)
Voluntary contributory savings plan	All active employees

7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)

Plan	Eligible employees
Defined contribution component of the savings plan	Active employees not participating in the defined benefit ERP
Deferred compensation plan for officers	Active officer-level employees (vice president and above)
Supplemental defined contribution plan for senior officers	Active senior executives not participating in the defined benefit SERP

A brief description of the plans follows.

Defined Benefit ERP and SERP

We provide two non-contributory defined benefit pension plans to eligible employees, including a qualified ERP and a non-qualified SERP. The benefits are based primarily on years of service and employees' average compensation during the highest 60 consecutive months of employment. Both plans are now closed to new participants. The benefits of those participants who previously transitioned out of the ERP were frozen at the time of transition, and will be made available to them upon retirement.

Retiree Medical Plan

The Company maintains the Retiree Medical Plan to provide health benefits to eligible retired employees and their eligible dependents. Eligible retirees pay the full premium cost to be enrolled in the Company's retiree medical coverage. Under the Retiree Medical Plan, the Company offers a Retiree Medical Savings Plan that provides eligible retirees with credits that can be used to help pay for health care premiums during retirement. Included in the Retiree Medical Plan are Retiree Medical Accounts created for eligible employees and retirees with fixed annual credits applied to those accounts for each year of FINRA service beginning at age 40, and accrual of credits for a portion of the active employee's 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.

Postretirement Life Insurance Benefit Plan

The Company provides a non-contributory specified life insurance benefit to eligible retired employees. The postretirement life insurance benefit plan is closed with respect to new participants.

Voluntary Contributory Savings Plan

FINRA 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 6 percent of base compensation.

The savings plan expense for 2019 and 2018 was $24.9 million and $24 million, respectively, which was included within compensation and benefits expense in the consolidated statements of operations.

Defined Contribution Component of the Savings Plan

FINRA offers a defined contribution component of the savings plan to all eligible employees not currently participating in the ERP.

The Company's contributions for this component are based on a participant's age plus years of service, and vesting is on a graduated scale over six years. The investment options are the same as the current options in the savings plan. Expenses related to the defined contribution component of the savings plan for 2019 and 2018 were $24.6 million and $23.5 million,

7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)

respectively, which were included within compensation and benefits expense in the consolidated statements of operations.

Deferred Compensation Plan for Officers

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, 2019, $25.2 million of investments and $25.2 million of amounts due to plan participants were included in equity 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, 2018, $20.4 million of investments and $20.4 million of amounts due to plan participants were included in equity 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, 2019 and 2018, FINRA made no additional contributions to this plan.

Supplemental Defined Contribution Plan for Senior Officers

FINRA maintains a supplemental defined contribution plan for the Company's senior officers and 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, 2019, $20.3 million of investments and $20.3 million of amounts due to plan participants were included in equity investments and accrued personnel and benefit costs in the consolidated balance sheet, representing FINRA's contributions to this plan and accrued earnings. As of December 31, 2018, $17.8 million of investments and $17.8 million of amounts due to plan participants were included in equity investments and accrued personnel and benefit costs in the consolidated balance sheet, representing FINRA's contributions to this plan and accrued earnings.

Voluntary Retirement Program

On September 18, 2019, 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 December 31, 2019. The VRP included provisions for benefits in the form of severance payments; medical, dental and vision benefits; outplacement services; and eligibility and payout for various bonus programs, as applicable.

We followed the accounting guidance related to special termination benefits provided under the VRP. As of December 31, 2019, we have accrued $33.6 million of severance benefits related to the VRP and this amount was included in compensation and benefits expense in the consolidated statements of operations.

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

7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)

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 retiree medical and postretirement life insurance benefit 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, 2019 and 2018, and the accumulated benefit obligation at December 31, 2019 and 2018, were as follows:

	Pension Plans		Other Plans	
	2019	2018	2019	2018
	(in millions)			
Change in benefit obligation				
Benefit obligation at beginning of period	$ 571.7	$636.4	$ 77.1	$ 78.1
Service cost	14.6	17.4	3.4	3.8
Interest cost	23.8	22.5	3.3	2.8
Actuarial losses (gains)	127.1	(78.8)	1.8	(5.6)
Benefits paid	(17.8)	(25.8)	(2.1)	(2.0)
Curtailment loss	10.0	—	—	—
Special termination benefits	—	—	0.1	—
Benefit obligation at end of period	$ 729.4	$ 571.7	$ 83.6	$ 77.1
Change in plan assets				
Fair value of plan assets at beginning of period	$ 492.5	$ 521.6	$ —	$ —
Actual return on plan assets	116.4	(29.9)	—	—
Company contributions	—	26.6	2.1	2.0
Benefits paid	(17.8)	(25.8)	(2.1)	(2.0)
Fair value of plan assets at end of period	$ 591.1	$ 492.5	$ —	$ —
Underfunded status of the plan	$(138.3)	$ (79.2)	$(83.6)	$(77.1)
Accumulated benefit obligation	$680.5	$ 517.2		

Our total accrued pension and other postretirement liability in the consolidated balance sheets comprised the following:

	Pension Plans		Other Plans	
	2019	2018	2019	2018
	(in millions)			
Current	$ 10.7	$ 6.4	$ 2.2	$ 2.5
Noncurrent	127.6	72.8	81.4	74.6
Net amount at December 31	$138.3	$79.2	$83.6	$ 77.1

The current portion of pension and other liabilities represented the net present actuarial value of benefits to be paid over the next 12 months in excess of plan assets, and was included in accrued personnel and benefit costs in the consolidated balance sheet. There are no plan assets for the SERP, retiree medical and postretirement life insurance benefit plans.

The Company does not expect any plan assets to be returned to it during the year ending December 31, 2020.

7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)

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

	Pension Plans		Other Plans	
	2019	2018	2019	2018
	(in millions)			
Service cost	$ 14.6	$ 17.4	$3.4	$3.8
Interest cost	23.8	22.5	3.3	2.8
Expected return on plan assets	(29.2)	(29.2)	—	—
Recognized net actuarial losses	1.7	2.8	—	0.1
Prior service cost recognized	—	0.1	1.4	1.4
Curtailment expense	10.0	—	—	—
Settlement expense	—	0.1	—	—
Special termination benefits	—	—	0.1	—
Net periodic benefit cost	$ 20.9	$ 13.7	$8.2	$ 8.1

Service cost was included in compensation and benefits expense in the consolidated statements of operations. All other components of net periodic benefit cost were included in other expense in the consolidated statements of operations.

The assumed health care cost trend rate to be used for the next year to measure the expected cost of other plan liabilities is 7.0 percent, with a gradual decline to 6.4 percent by the year 2024. 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.

The net amounts included in accumulated other comprehensive loss were as follows:

	Pension Plans		Other Plans	
	2019	2018	2019	2018
	(in millions)			
Unrecognized net actuarial loss	$(112.3)	$(74.1)	$(6.0)	$ (4.1)
Unrecognized prior service cost	—	—	(2.0)	(3.4)
Net amount at December 31	$(112.3)	$(74.1)	$(8.0)	$ (7.5)

7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)

The following amounts were included in other comprehensive loss during 2019:

	Incurred but not yet recognized in net periodic benefit cost	Reclassification adjustment for prior period amounts recognized
	(in millions)	
Actuarial (losses) gains		
Pension plans	$(39.9)	$1.7
Other plans	(1.9)	—
	(41.8)	1.7
Prior service cost		
Pension plans	—	—
Other plans	—	1.4
	—	1.4
	$ (41.8)	$3.1

The estimated amounts to be amortized from accumulated other comprehensive loss into net periodic benefit cost during 2020 based on December 31, 2019, plan measurements were as follows:

	Pension Plans	Other Plans
	(in millions)	
Unrecognized prior service costs	$ —	$1.4
Unrecognized actuarial losses	3.9	—

The weighted-average assumptions used to determine benefit obligations for the years ended December 31, 2019 and 2018, were as follows:

	Pension Plans		Other Plans	
	2019	2018	2019	2018
Discount rate	3.17%	4.27%	3.07%	4.14%
Rate of compensation increase	3.00%	3.00%	—	—

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

	Pension Plans		Other Plans	
	2019	2018	2019	2018
Discount rate	4.27%	3.65%	4.14%	3.47%
Rate of compensation increase	3.00%	3.00%	—	—
Expected return on plan assets	6.10%	5.75%	—	—

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 are 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 2020 net periodic benefit cost is 6.10 percent.

7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)

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.

PLAN ASSETS

We fund our ERP obligation, and we have established an irrevocable rabbi trust to fund our SERP obligation. The retiree medical and postretirement life insurance benefit plans are unfunded plans.

The trust related to the SERP obligation is included in our consolidated financial statements. As of December 31, 2019 and 2018, $5 million and $4.4 million of investments were included in equity 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.

The investment policy and strategy of the ERP assets are established by the Pension Committee, which is composed of a cross-representative body of FINRA officers assisted by outside counsel, investment advisors and actuaries. The Management Compensation and Investment Committees of the Board have oversight responsibilities with respect to the ERP and its assets. The investment policy and strategy strive to achieve a rate of return on plan assets that will, over the long term, in concert with Company contributions, fund the plan's liabilities to provide for required benefits. As the funded status of the plan improves, the plan will assume less risk through reductions in return-seeking exposure and/or improved matching of fixed income assets with liabilities.

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 or entity that derives 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, 2019 and 2018:

	2019 Target Allocation	2019	2018
Equity securities:			
U.S. equity	15.9%	16.5%	15.8%
Non-U.S. equity	14.1%	14.9%	14.1%
Global equity	20.3%	21.3%	20.1%
U.S. fixed income securities	46.0%	44.1%	45.6%
Alternative investments	2.7%	2.4%	2.7%
Cash equivalents	1.0%	0.8%	1.7%
Total	100.0%	100.0%	100.0%

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. 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, 2019 and 2018, by asset category, and indicate the fair value hierarchy of the valuation techniques used to determine fair value:

Description	Fair Value Measurement at December 31, 2019 Measured Using		
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Total
		(in millions)	
Money market funds	$ 4.7	$ —	$ 4.7
Corporate stocks	13.7	—	13.7
Common/collective trusts (a):			
Equity	—	241.2	241.2
Fixed income	—	158.6	158.6
Registered investment companies:			
Equity	56.7	—	56.7
Fixed income	115.0	—	115.0
Total assets in the fair value hierarchy	190.1	399.8	589.9
Partnership/joint venture interests measured at net asset value (b):	—	—	1.2
Total	$190.1	$399.8	$ 591.1

Description	Fair Value Measurement at December 31, 2018 Measured Using		
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Total
		(in millions)	
Money market funds	$ 9.0	$ —	$ 9.0
Corporate stocks	10.0	—	10.0
Common/collective trusts (a):			
Equity	—	193.3	193.3
Fixed income	—	104.3	104.3
Registered investment companies:			
Equity	42.3	—	42.3
Fixed income	132.0	—	132.0
Total assets in the fair value hierarchy	193.3	297.6	490.9
Partnership/joint venture interests measured at net asset value (b):	—	—	1.6
Total	$193.3	$297.6	$ 492.5

7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)

(a) Includes both domestic and international equity and fixed income securities. Fair values are readily available and 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 these investments are valued daily and a unit-holder’s ability to transact in the trusts’ units occurs daily; however, units are not available on an active exchange. As the fair value per unit is readily determinable, the valuation of these securities is categorized in Level 2 of the fair value hierarchy.

(b) In accordance with ASC Subtopic 820-10, a certain investment that is measured at fair value using the net asset value per share practical expedient has not been classified in the fair value hierarchy. The fair value amount presented in this table is intended to permit reconciliation of the fair value hierarchy to the fair value of plan assets presented in the plan disclosures section of this footnote.

The investment included in this category is a private equity fund that invests in the natural resources and real estate industries. The investment is nonredeemable. The fair value of the investment has been estimated using the net asset value per share of the investment.

For the years ended December 31, 2019 and 2018, 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.” 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.

EXPECTED FUTURE BENEFIT PAYMENTS

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 2020, we expect to contribute $39.5 million to the ERP. We do not expect to contribute to the SERP in 2020. 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,		
2020	$ 93.2	$ 4.5
2021	37.5	9.6
2022	28.2	10.4
2023	30.1	11.1
2024	36.6	12.1
2025 through 2029	195.7	69.5
Total	$421.3	$117.2

8. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following is a summary of changes in accumulated other comprehensive loss as of December 31, 2019 and 2018.

	Unrealized gain (loss) on available-for-sale investments	Net unrecognized employee benefit plan amounts	Total
		(in millions)	
Balance, January 1, 2018	$ 32.0	$ (111.4)	$ (79.4)
Other comprehensive (loss) income before reclassifications	(30.7)	25.4	(5.3)
Amounts reclassified from accumulated other comprehensive (income) loss (a)	(1.9)	4.4	2.5
Net current-period other comprehensive (loss) income	(32.6)	29.8	(2.8)
Balance, December 31, 2018	(0.6)	(81.6)	$ (82.2)
Cumulative effect from change in accounting policy (b)	0.6	—	0.6
Other comprehensive loss before reclassifications	—	(41.8)	(41.8)
Amounts reclassified from accumulated other comprehensive loss (a)	—	3.1	3.1
Net current-period other comprehensive loss	0.6	(38.7)	(38.1)
Balance, December 31, 2019	$ —	$(120.3)	$(120.3)

(a) Reclassified amounts for gains on available-for-sale investments were recorded in net realized and unrealized investment gains in the consolidated statements of operations—see Note 4, "Investments," for additional information. Reclassified net unrecognized employee benefit plan amounts were included as a component of net periodic benefit cost and recorded in other expense in the consolidated statements of operations—see Note 7, "Employee Benefit Liabilities," for additional information.

(b) Effective January 1, 2019, we adopted ASU 2016–01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*—see Note 2, "Summary of Significant Accounting Policies," for more information.

9. 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 $26.7 million and $25.8 million for the years ended December 31, 2019 and 2018, which was 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, 2019:

Year ending December 31,	*(in millions)*
2020	$ 26.2
2021	19.6
2022	22.9
2023	23.1
2024	22.4
Remaining years	114.0
Total minimum lease payments	$ 228.2

10. DEBT

FINRA maintains an unsecured line of credit agreement and has the option to borrow up to $150 million at the LIBOR Daily Floating Rate plus 0.45 percent (1.99 percent at December 31, 2019). As of December 31, 2019, and December 31, 2018, no line of credit amounts were outstanding. Our latest line of credit renewal commenced on February 1, 2020 and expired on May 31, 2020.

As of December 31, 2019 and 2018, we had outstanding debt of $13.7 million and $14.6 million, respectively, on our unsecured 2.99 percent fixed rate seven-year term loan related to our 2015 purchase of the Omega Building in Rockville, Maryland.

11. COMMITMENTS AND CONTINGENCIES

General Litigation

Management is not aware of any unasserted claims or assessments that would have a material adverse effect on the Company's financial position and the results of operations. Currently, there are certain legal proceedings pending against us. While the outcome of any pending 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, 2019, there were no material estimated losses requiring disclosure related to pending legal proceedings, because we believe that any litigation contingency from these matters involves a chance of loss that is either remote or not 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, 2019.

Indemnities

The general partner and investment manager of the Consolidated Entity, on behalf of the Consolidated Entity, enter into certain contracts that contain a variety of indemnifications. The Consolidated Entity's maximum exposure under these arrangements is unknown. However, the Consolidated Entity has not had prior claims or losses pursuant to these contracts and expects any risk of loss to be remote.

12. SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 30, 2020, the date these financial statements became available to be issued. These financial statements have been approved by management, who has determined that no subsequent event occurred that would require disclosure in the consolidated financial statements or accompanying notes.

The outbreak of the coronavirus (COVID-19) has adversely impacted global commercial activity and contributed to significant volatility in financial markets. The rapid evolution of the outbreak led many countries to institute quarantines and restrictions on travel, which continue to create disruption in global supply chains and adversely impact a number of industries. The outbreak could have a continued adverse impact on economic and market conditions; however, the fluidity of this situation precludes any prediction as to the ultimate adverse impact of COVID-19. The fair value of the Company's investments has experienced a decline since December 31, 2019, and COVID-19 could continue to have a significant adverse impact on the Company, including the results of its operations and the fair value of its investments. In addition to the factors described above, other factors either in the U.S. or internationally that may affect market, economic and geopolitical conditions, and thereby adversely affect the Company's business include, without limitation, economic slowdown, changes in interest rates and/or a lack of availability of credit, changes in law and/or regulation, and uncertainty regarding government and regulatory policy.

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