Financial Industry Regulatory Authority

FINRA 2013 Year in Review and Annual Financial Report

FROM THE CHAIRMAN AND CEO

A New Day in Regulation

Innovation. Technology. Risk mitigation. These elements characterized FINRA's operations in 2013, and underpin our vision of the future of securities firm regulation.

We envision a new day in regulation, where, with the use of modern technology—particularly the capability to manage and analyze vast amounts of data—we can see more and different information in a new way. Our goal is to expand our ability to identify, assess and manage risks in a cost-effective manner, and better focus our resources on the areas that pose the greatest threat to investors and the markets.

In 2013, FINRA invested nearly 25 percent of its annual spend in innovative technology, including cloud computing, in order to build sophisticated surveillance systems and process extraordinary amounts of data. These technological resources are at the heart of our risk-focused strategy, and are already transforming the way FINRA examines firms and oversees the markets.

Our goal is to expand our ability to identify, assess and manage risks in a cost-effective manner, and better focus our resources on the areas that pose the greatest threat to investors and the markets.

Advancing Our Risk-Based Examination Program

Our shift to a data-driven, risk-based exam program is a meaningful illustration of how we are transforming the way we regulate. We now collect more information electronically from firms prior to scheduled exams—an approach that has resulted in a sharper focus and narrower scope of many of our exams. In the latter part of 2013, we took a major step forward when we fully implemented an enhanced exam technology platform used for all new exams. In addition, we enhanced our risk-based approach with respect to the oversight of individual, high-risk brokers. Early last year, FINRA launched an initiative to identify for targeted, expedited review those individuals who pose a significant risk to investors or the industry—and where they have harmed investors and violated our rules, to bar them from the industry as quickly as possible.

Richard G. Ketchum
Chairman and
Chief Executive Officer

FINRA's Risk Control Assessment (RCA) survey is another example of how we are collecting data electronically and analyzing it with a focus on risk. We sent our second annual RCA in May 2013. Firms that responded told us that their subsequent sales practice cycle exams were more streamlined, that examiners arrived on-site with a better understanding of the firm's business, and that the focus of the examination was more risk-based. We continue to enhance this annual assessment survey based on feedback from firms.

Our shift to a data-driven, risk-based exam program is a meaningful illustration of how we are transforming the way we regulate.

Through the use of advanced technology, we plan to collect and analyze additional information to further our exam program. In September 2013, the FINRA Board approved a proposal to develop an automated system to collect account information that firms maintain as part of their books and records, such as account holdings and transactions. The Comprehensive Automated Risk Data System (CARDS) is the next step—and an important leap forward—in the evolution of our risk-based regulatory program. By providing us with on-going "birds-eye view" surveillance to complement our onsite exams, CARDS will allow us to quickly identify trends and product concentrations that are harmful to investors and take swift, responsive action.

Examining Through a Risk-Focused Lens

Within the firm examination program, we continued to focus on the risks that new and emerging products, business models and practices pose to investors and the markets. In 2013, we devoted significant resources to investigating the sale and suitability of complex and high-yield products due to heightened investor protection concerns. As noted below, we also focused on anti-money laundering issues, as well as high-frequency trading and other algorithmic trading practices that have the potential for abuse. Our most recent Annual Regulatory and Examination Priorities Letter, published in January 2014, noted that our areas of focus this year are similar to those we identified in 2013—with additional attention to market concerns that may impact interest rates, incentives arising out of firm compensation structures and new product development trends.

In addition to publishing our examination priorities, last year we pursued other methods to communicate effective practices and help firms strengthen their compliance programs. In October, for example, we issued a Report on Conflicts of Interest in the broker-dealer industry to highlight effective conflicts management practices we observed at firms. Those practices include establishing an enterprise-level conflicts framework to identify and manage conflicts tailored to the size and complexity of the firm; making independent decisions in the wealth management business about the products the firm offers without pressure to favor proprietary products or products for which the firm has revenue-sharing agreements; and minimizing conflicts in compensation structures, where possible, while mitigating those conflicts that persist.

Monitoring Trading Activity Across Markets

Technology is a driving force behind the power of our market surveillance program. Even though the markets are widely fragmented, new technological advances help us aggregate data across exchanges and alternative trading systems—enabling us to see one big, virtual market instead of a disjointed patchwork of individual markets. FINRA's cross-market surveillance program currently canvasses activity on 90 percent of U.S.-listed equities, including NASDAQ's and NYSE's family of markets.

In May 2013, we signed an agreement to provide market surveillance services on behalf of Direct Edge's two licensed stock exchanges, and in February of this year, signed a subsequent agreement to provide cross-market surveillance services to BATS' four stock exchanges. By 2015, when the BATS agreement is fully in place, FINRA will conduct comprehensive cross-market surveillance across 99 percent of the market for U.S.-listed equities.

Increasing our ability to look across markets through this kind of surveillance program is a significant step forward in promoting market integrity. That said, there is more to do. Implementing a consolidated audit trail—or CAT—is the step that will take regulators to the next level of market surveillance. CAT will collect, identify and link orders, trades and quotes in equities and options from all market participants, including customers, and flag the activity of each participant with a unique identifier. This will dramatically increase the view of cross-market and cross-product activity, and better enable regulators to detect trading abuses that are imperceptible today.

Technology is a driving force behind the power of our market surveillance program.

Last year, FINRA and the other SROs took several steps to facilitate the development of the CAT. In August, the SROs submitted to the SEC a National Market System Plan proposing a process for evaluating bids and selecting a CAT plan processor. In March 2014, ten organizations, including FINRA, submitted their bids. We expect the SROs to select the CAT processor two months after they submit the final plan to the SEC.

Taking Action to Stop Fraud

FINRA remains committed to taking swift, responsive action in the face of fraud and misconduct. When appropriate, we expedite proceedings to prevent further harm to investors and the markets. In 2013, FINRA brought 1,535 disciplinary actions against registered individuals and firms and levied fines totaling more than $60 million. In addition, we expelled 24 firms from the securities industry, suspended 38 firms, barred 429 individuals and suspended 670 brokers from association with FINRA-regulated firms.

In addition to taking disciplinary action, in certain cases we are able to obtain restitution for investors who were harmed. Last year, we ordered more than $9.5 million in restitution to harmed investors, and through June of this year, we have ordered more than $26 million in restitution. For example, we ordered Wells Fargo and Banc of America to pay more than $3 million in restitution to customers for losses incurred from unsuitable sales of floating-rate bank loan funds. We also fined the firms $2.15 million for their conduct in the cases. FINRA found that the firms recommended concentrated purchases of floating-rate bank loan funds to customers whose risk tolerance, investment objectives, and financial conditions were inconsistent with the risks and features of floating-rate loan funds.

Throughout the year, we also took action against firms that were not complying with their anti-money laundering obligations. In particular, we focused on how firms monitor customer accounts liquidating microcap and low-priced over-the-counter securities to ensure that, among other things, firms are not engaging in money laundering as part of facilitating, enabling or participating in unregistered distributions or manipulations. In one case, we fined Brown Brothers Harriman & Co. $8 million for substantial anti-money laundering compliance failures. We found that the firm did not have an adequate anti-money laundering program in place to monitor and detect suspicious penny stock transactions. The firm also failed to sufficiently investigate potentially suspicious penny stock activity brought to its attention and did not fulfill its Suspicious Activity Report filing requirements.

In 2013, we also took action to stop manipulative or disruptive electronic trading activity. Last July, for example, FINRA took disciplinary action against NewEdge USA for failing to stop direct market access clients who sought to manipulate the markets. FINRA fined the firm $4 million for failure to adequately supervise firm personnel and direct market and sponsored access customers, and brought actions on behalf of our exchange clients to fine the firm an additional $5.5 million. We also required the firm to retain an independent consultant to review its controls for direct market access and placed a moratorium on the firm’s ability to accept new direct market access clients until it satisfactorily resolved issues the consultant raised.

Beyond pursuing our own disciplinary actions, FINRA actively shares intelligence with other regulators and law enforcement agencies to more effectively supervise firms that operate in multiple jurisdictions. In 2013, we referred 660 fraud and insider trading cases to the SEC and other agencies, many of which resulted in formal prosecution or litigation. For example, on April 11, 2013, the SEC charged a former partner in charge of KPMG's Pacific Southwest audit practice and his close friend and golf partner with insider trading relating to at least five KPMG clients or former clients. The U.S. Attorney's Office for the Central District of California also brought charges in the case, which stemmed in part from referrals sent to the SEC from the Insider Trading Surveillance section of FINRA's Office of Fraud Detection and Market Intelligence (OFDMI).

FINRA remains committed to taking swift, responsive action in the face of fraud and misconduct.

In another case, a referral from OFDMI's Fraud Surveillance section led to the SEC bringing a civil enforcement action against two San Diego attorneys and other participants in a fraud scheme, including a Bahamas-based broker-dealer and a group of Canadian stock promoters. The promoters used their stock-touting websites to send investors false and misleading email blasts that pumped the issuers' stock prices, and then scalped, or secretly sold, their shares into the inflated market for multiple millions of dollars in profits.

Rulemaking to Protect Investors

During 2013, we took steps to move significant rule proposals forward. In December, the SEC approved amendments to our consolidated supervision rules. The new rules, which replace NASD rules and other corresponding NYSE rule provisions, become effective on December 1, 2014.

In addition, we addressed the concerns of limited corporate financing brokers, which are firms engaged solely in activities such as advising an issuer about its securities offering or advising a company about its corporate restructuring or merger. We received approval from our Board to develop a narrower rule set for these firms. In February of this year, we published a *Regulatory Notice* soliciting comment on the proposed rule set, which is designed to ease compliance burdens, lower regulatory costs, and focus both firms and examiners on rules that matter to this business model.

We continue to assess our rules to ensure that we meet our mandate to protect investors and the markets, while balancing the efficiency of our regulatory operations and firms' compliance responsibilities. In support of that effort, in September of last year, FINRA's Office of the Chief Economist developed and published an Economic Impact Assessment Framework that allows us to further enhance transparency and accountability of our rulemaking by ensuring that we more formally, rigorously and consistently develop rules that are effective and efficient. This framework will also inform FINRA's efforts to assess rules retrospectively to determine whether those rules and rule sets are meeting their intended investor-protection objectives by reasonably efficient means. In April of this year, we initiated the retrospective rule review process by requesting comment on two rule sets: our rules on communications with the public, and the gifts, gratuities and non-cash compensation rules.

Enhancing Market Transparency

FINRA is committed to ensuring that investors and market participants have access to trade information that enables them to assess prices and valuations. To that end, FINRA significantly increased transparency in the mortgage-backed securities market through our Trade Reporting and Compliance Engine (TRACE). In July 2013, we began disseminating information on specified pool transactions in agency pass-through mortgage-backed securities and SBA-backed securities. This represents approximately 3,500 trades, totaling $18 billion in par value, on an average daily basis.

Also in July of last year, the Board authorized FINRA to file a proposal with the SEC to disseminate transactions in additional types of asset-backed securities, such as those backed by credit card receivables, automobile and student loans, and a variety of other credits, including Rule 144A transactions in the asset-backed securities, subject to a $10 million dissemination cap. The SEC approved the proposal in February 2014.

We plan to begin publicly disseminating Rule 144A transactions in TRACE-eligible securities for those asset types currently subject to dissemination at the end of June. Providing price transparency in Rule 144A transactions will foster more competitive pricing, reduce costs to investors and assist market participants in determining the quality of their executions. In addition, FINRA believes transparency may improve the quality of valuations of positions in these securities.

FINRA is committed to ensuring that investors and market participants have access to trade information that enables them to assess prices and valuations.

We also took steps to give investors a view of the trading activity that takes place in alternative trading systems (ATS), including dark pools. In July, FINRA's Board approved a proposal to require each ATS to report volume information to FINRA and to use unique market participant identifiers. We subsequently received SEC approval of the proposal in January of this year, and in June, we began providing that data to investors.

Educating and Informing Investors

During 2013, we expanded distribution of investor education content and research in a variety of ways. For example, we began syndicating our investor education materials and tools through two major financial websites—Yahoo! Finance and Motley Fool—and the Finance tile on Microsoft Windows 8. Through the end of the year, we published 50 unique articles through these channels. We continue to look for similar venues through which to deliver and publish our investor education content. In addition to these new initiatives, we continued to alert investors about important investing issues. In 2013, we published eight Investor Alerts on a wide range of timely issues, such as marijuana stock scams, alternative mutual funds and duration risk.

In May 2013, the FINRA Investor Education Foundation released the state-by-state and national findings from the 2012 National Financial Capability Study—a follow-up to the landmark 2009 study—and in December, the Foundation released the military data from the study. The data we've gathered from the studies allow academics, policymakers and educators to better understand the relationships among financial literacy, financial capability and financial well-being. In 2013, academics, researchers and Foundation staff issued six research reports using data from the Foundation's studies.

Expanding Access to BrokerCheck

In addition to our investor education efforts, in 2013 we took important steps to expand the range of information available to investors through BrokerCheck®—FINRA's online database that provides background information about brokers and brokerage firms, as well as investment adviser firms and representatives. In December 2013, we received SEC approval to disclose additional information about firms and brokers, including an expanded category of civil judicial disclosures that are permanently available in BrokerCheck. In November 2013, FINRA released an enhanced version of BrokerCheck that allows investors to more quickly access and more intuitively understand the professional background of investment professionals. We continue to look for ways to increase investors' awareness of BrokerCheck. In April of this year, we published a revised proposal to amend FINRA's Communications With the Public rules to require firms to include a readily apparent reference and link to BrokerCheck on any member firm's website that is available to retail investors.

We also want to continue to ensure that the information contained in BrokerCheck is accurate, complete and meaningful to investors. In April of this year, we announced that FINRA's Office of the Chief Economist has initiated a study of data in the Central Registration Depository (CRD) that is not currently disclosed in BrokerCheck, to see if there's a reliable relationship between that information and any broker misconduct. We have also proposed a rule related to expungement of customer dispute information from CRD.

The rule, which our Board approved in February of this year, would prohibit firms and brokers from conditioning the settlement of a dispute with a customer on the customer's agreement not to oppose expungement of allegations in the complaint. The rule will help ensure that the CRD system continues to contain information that is critical to investor protection.

Financials

Financially, 2013 was a solid year. Revenues increased 2.5 percent over 2012. Expenses remained relatively flat year over year, despite major expenditures, including $19.5 million in severance payments and $12.7 million in additional service credits to participants in the Voluntary Retirement Program. These expenditures were largely offset by real estate and administrative cost savings. Last year's investment returns were lower year over year as a result of holding losses on the bond portfolio, partially offset by the performance of our broadly diversified multi-asset fund. We will continue to evaluate cost savings initiatives without compromising our regulatory mission.

Our managed spending across the organization, coupled with pricing actions, resulted in net cash flows in excess of our 2013 annual budget. Additionally, these excess cash flows were not required to fund operating expenses in 2014. Given the better-than-expected financial performance, the Board approved a one-time discretionary rebate of $20 million, which we distributed to active member firms at the end of last year. All firms in good standing received a $1,200 rebate to offset their minimum gross income assessment fee. In addition, firms received a rebate based on their prorated share of regulatory fees paid into FINRA, which includes the Gross Income Assessment, Branch Office Assessment, Trading Activity Fee and Personnel Assessment.

Looking Ahead

FINRA has a long history of transforming securities firm regulation—and we remain committed to shaping the future of regulation by seeking innovative ways to protect investors and the markets.

Richard G. Ketchum
Chairman and Chief Executive Officer

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Management Report on Financial Operations

OVERVIEW

The Financial Industry Regulatory Authority, Inc.® (FINRA®) is the largest independent regulator of securities firms doing business with the public in the United States. Our core mission is to pursue investor protection and market integrity, and we carry it out by overseeing virtually every aspect of the securities industry. As of December 31, 2013, FINRA oversaw nearly 4,100 brokerage firms, approximately 161,000 branch offices and almost 636,000 registered securities representatives.

We regulate the activities of the U.S. securities industry and perform market regulation under contract for the New York Stock Exchange LLC (NYSE), NYSE Arca, Inc. (NYSE Arca), NYSE MKT LLC (NYSE MKT), the NASDAQ OMX Group, Inc. (NASDAQ), NASDAQ OMX BX, Inc. (Boston), NASDAQ OMX PHLX LLC (Philadelphia), the Direct Edge exchanges (EDGA and EDGX) and other exchanges. We also regulate the over-the-counter (OTC) securities markets and operate transparency facilities. Our regulatory functions include onsite examinations of securities firms, continuous automated surveillance of markets and disciplinary actions against firms and registered representatives.

We provide arbitration and mediation services to assist in the resolution of monetary and business disputes between and among investors, securities firms and registered representatives. We also provide dispute resolution services for several exchanges through contractual agreements, thereby offering consistent procedures and the uniformity of a single forum for the resolution of securities-industry related disputes. We developed and continue to enhance BrokerCheck®, a free tool that helps investors research the professional backgrounds of current and former FINRA-registered brokerage firms and brokers, as well as investment adviser firms and representatives.

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

With approximately 3,400 employees, we are the first line of defense for investors — working in communities all across the nation. Not only do we examine broker-dealers for compliance with our own rules; we also examine them for compliance with federal securities laws and rules of the Municipal Securities Rulemaking Board. We continue to enhance our risk-based regulatory program through the use of new technology to support the process of examining firms.

In addition to regulating both firms and individuals in the securities industry, FINRA's cross-market surveillance program canvasses activity on 90 percent of U.S.-listed equities. Additionally, new advances in technology allow us to aggregate data from multiple trading venues and see trading patterns that we previously could not see. Such cross-market surveillance patterns represent a significant step in further promoting market integrity.

As noted in FINRA Chairman and CEO Rick Ketchum's letter, FINRA remains vigilant in its efforts to swiftly respond to fraud and misconduct. In 2013, we referred 660 fraud and insider trading cases to the Securities and Exchange Commission (SEC) and other federal agencies as we did not have jurisdiction in these circumstances. When we share information with other regulators, it leads to important actions that prevent further harm to investors.

While FINRA is not part of the government, we are authorized by Congress to take action to ensure that investors are protected. We do the front-line work for the SEC under that agency's oversight, and in 2013, we brought 1,535 disciplinary actions (a slight decrease from 2012) against registered individuals and firms. As part of those disciplinary actions, we levied 754 fines totaling more than $60 million and ordered restitution of more than $9 million to harmed investors. While fine revenues were down 12.6 percent from 2012, the number of monetary sanctions increased slightly year over year.

Management Report on Financial Operations (continued)

This Management Report should be read in connection with the consolidated financial statements and accompanying notes included elsewhere in this Annual Financial Report. The 2013 consolidated financial statements reflect the activities of FINRA and its consolidated subsidiaries, collectively referred to as "we," "our," "us," "FINRA" or the "Company" throughout this Management Report. As of and for the years ended December 31, 2013 and 2012, FINRA's primary consolidated subsidiaries are FINRA Regulation, Inc., FINRA Dispute Resolution, Inc. and the Foundation.

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

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

SUMMARY OF OPERATIONS

The following table provides a summary of our operations for the two years ended December 31, 2013.

	Years Ended December 31,	
	2013	2012
	(in millions)	
Net revenues	$ 900.7	$ 878.6
Total expenses	(998.9)	(992.7)
Interest and dividend income	24.8	24.9
Operating loss	(73.4)	(89.2)
Net realized and unrealized investment gains	2.4	42.5
Equity earnings from other investments	73.6	59.1
Other	(0.9)	(1.9)
Net income	$ 1.7	$ 10.5

Net revenues grew 2.5 percent, which includes the effect of the $20 million discretionary rebate issued to firms at the end of 2013. Expenses remained relatively flat, despite the effect of severance and pension-related costs associated with our 2013 Voluntary Retirement Program (VRP), as discussed below. Holding losses related to our trading portfolio led to lower net investment gains year over year, contributing to net income of $1.7 million for 2013.

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

BALANCE SHEET

Our focus is to ensure a strong balance sheet, so that we are financially positioned to respond to the regulatory needs of investors in today's continually evolving markets. To that effect, our balance sheet remains strong, with net assets of approximately $1.4 billion and $1.2 billion as of December 31, 2013 and 2012, respectively. FINRA's working capital was $633.1 million as of December 31, 2013, and $667.2 million as of December 31, 2012. Our working capital and cash ratios were 1.96 and 1.73 as of December 31, 2013, compared to 2.11 and 1.85 as of December 31, 2012.

Assets

FINRA had total assets of approximately $2.3 billion and $2.2 billion as of December 31, 2013 and 2012, including total cash and investments (as defined below) of approximately $2.0 billion and $1.8 billion as of December 31, 2013 and 2012. FINRA's total assets increased $68.1 million or 3.1 percent in 2013 primarily due to increases in cash and investments, offset by decreases in property and equipment, receivables and other assets.

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

Cash and investments (cash, cash equivalents and trading, available-for-sale and other investments, including investments receivable), represent the largest portion of FINRA's total assets, approximately 86 percent as of December 31, 2013. Our primary market risk relates to our investment portfolio. Our investments are impacted by fluctuations in the securities markets and by interest rate risk, currency risk and commodity risk, as well as other financial and nonfinancial risks.

In 2013, cash and investments increased $107.5 million driven primarily by investment portfolio returns of 5.7 percent, including returns from our cash operating fund, offset by our pension plan contribution.

As of December 31, 2013, our portfolio market exposures were as follows: bonds and cash, 56 percent; equities, 27 percent; alternatives, 12 percent; and real assets, 5 percent.

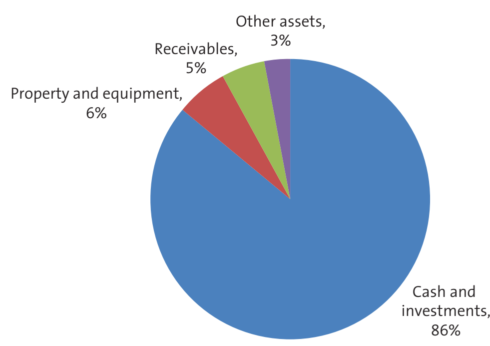
Our investment portfolio is highly liquid, with 52 percent available in 30 days or less as of December 31, 2013.

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

Receivables: Receivables, net of an allowance for uncollectible accounts, decreased primarily as a result of a reduction in amounts charged for regulatory services provided to the NASDAQ family of markets and the NYSE family of markets.

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

ASSETS BY TYPE AS OF DECEMBER 31, 2013



Assets as of December 31, 2013 and 2012:

	2013	2012
	(in millions)	
Cash and investments	$1,954.1	$1,846.6
Property and equipment	132.1	150.2
Receivables	107.0	121.0
Other assets	63.4	70.7
Total assets	$2,256.6	$2,188.5

Management Report on Financial Operations (continued)

Liabilities

FINRA's total liabilities decreased $103.4 million or 10.9 percent primarily due to decreases in pension and other postretirement liabilities, the SEC fee payable and deferred liabilities, offset by increases in accrued personnel and benefit costs, investments payable and other liabilities.

Pension and other postretirement: Pension and other postretirement benefit costs represent a significant liability to FINRA in terms of both the assumptions used to estimate the liability and its portion of FINRA's total liabilities, 17 percent as of December 31, 2013.

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

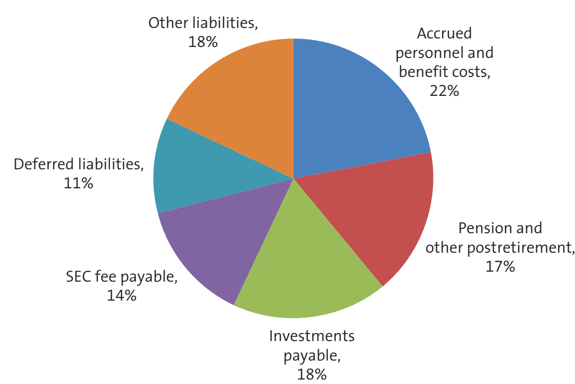
The increase in our pension plan discount rate from 4 percent as of December 31, 2012, to 5 percent as of December 31, 2013, partially offset by the effect of two additional years of service being offered to VRP participants, was the primary reason for the $154.6 million decrease in pension and other postretirement liabilities (current and long-term), and the corresponding increase in equity related to our pension and other postretirement plans.

The actuarial assumptions that we use in determining pension and other postretirement benefits may differ materially from actual results due to changing market and economic conditions, as well as early withdrawals by terminating plan participants. While we believe that the assumptions used are appropriate, differences in actual experience or changes in assumptions may materially affect our financial position or results of operations. A 25 basis-point increase (decrease) in the discount rate assumption as of December 31, 2013, would cause the projected benefit obligation for pension benefits to decrease (increase) by approximately $20.3 million. A 25 basis-point increase (decrease) in the discount rate assumption as of December 31, 2012, would have caused the 2013 pension benefits expense to decrease (increase) by approximately $2.9 million. Related to other postretirement benefits, a 25 basis-point increase (decrease) in the discount rate assumption would not have a material impact on the projected benefit obligation or expenses.

The pension plan's funding policy is to contribute enough to fund at least 100 percent of the pension plan's funding target liability as set forth by the Internal Revenue Service. We contributed $57.3 million to the pension plan in 2013.

As of December 31, 2013, our pension plan portfolio market exposures were as follows: bonds and cash, 48 percent; equities, 43 percent; and alternatives, 9 percent.

LIABILITIES BY TYPE AS OF DECEMBER 31, 2013



Liabilities as of December 31, 2013 and 2012:

	2013	2012
	(in millions)	
Accrued personnel and benefit costs	$182.1	$142.8
Investments payable	151.5	132.0
SEC fee payable	116.8	124.2
Deferred liabilities	78.1	80.4
Pension and other postretirement	9.8	11.1
Other current	121.4	109.1
Total current liabilities	659.7	599.6
Pension and other postretirement	136.6	289.9
Deferred liabilities	17.2	26.9
Other long-term	30.3	30.8
Total liabilities	$843.8	$947.2

Liabilities (continued)

Pension and other postretirement (continued): Effective January 1, 2011, FINRA adopted a new defined contribution component to the savings plan and participation in the pension plan for all new hires ceased. During 2011, current pension plan participants were given a limited option to participate in this new contribution component instead of the pension plan with their choice becoming effective on January 1, 2012. As of December 31, 2013, approximately 34 percent of FINRA's employees participated in the new defined contribution component to the savings plan, which, in the long-term, will limit our exposure to market fluctuations as funding is based on age, years of service and base compensation.

Investments payable: Investment 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. Year-end balances fluctuate based on the timing and amount of pending investment activity.

Accrued personnel and benefit costs: Accrued personnel and benefit costs increased primarily due to accrued severance related to the VRP and increased incentive compensation.

SEC fee payable: Our SEC fee payable decreased due to a rate decrease from $22.40 to $17.40 per million dollars in transactions for the months outstanding.

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

Other liabilities: Other liabilities consist primarily of accounts payable and accrued expenses; Central Registration Depository (CRD®) system balances; Investment Adviser Registration Depository (IARD™) program surplus; and deferred rental concessions. Other liabilities increased primarily due to an increase in funding of CRD account balances year over year as a result of the $20 million discretionary rebate issued to firms at the end of 2013.

Management Report on Financial Operations (continued)

STATEMENT OF OPERATIONS

Revenues

Overall, revenues for 2013 increased $22.1 million or 2.5 percent compared to 2012, as increases in regulatory and user revenues were offset by decreases in contract services, dispute resolution and fines revenues.

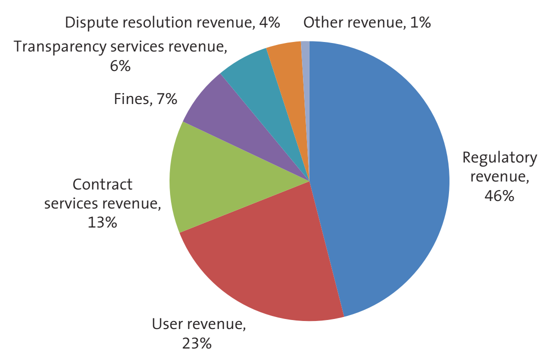
Regulatory revenue: Regulatory revenue, including the Trading Activity Fee (TAF), Gross Income Assessment (GIA), Personnel Assessment and Branch Office Assessment (BOA), is FINRA's primary source of revenue, representing 46 percent of revenues in 2013. These revenues are used to fund FINRA's regulatory activities, including examinations; financial monitoring; and FINRA's policymaking, rulemaking and enforcement activities. Regulatory revenue increased as a result of a BOA rate increase, which was implemented to cover the rising costs related to the branch office registration and examination program. The full year effect of the July 2012 TAF rate increase also contributed to revenue increases year over year despite declining volumes. These increases were offset by the $20 million discretionary rebate issued to firms at the end of 2013.

User revenue: Increases in annual registration and renewal; corporate financing; fingerprinting and late disclosure filing fees drove the increase in user revenue. Annual registration and renewal fees increased to help cover the costs of system enhancements and the increased number of registration categories available to individuals. The increase in corporate financing fees was driven by the full year effect of the July 2012 rate increase, in addition to an increase in the number of filings year over year. Fingerprinting fees increased to reflect the costs associated with processing fingerprints, especially the higher costs of hard copy fingerprint cards. The late disclosure filing fee increase was implemented in part to ensure that disclosure events are reported and updated in a timely manner.

Contract services revenue: Contract services revenue decreased as a result of a reduction in amounts charged for regulatory services provided to the NASDAQ family of markets and the NYSE family of markets. Additionally, there was a reduction in maintenance and support costs, coupled with a decline in exam volumes, related to the mortgage licensing system FINRA developed and deployed to the State Regulatory Registry LLC (SRR).

Transparency services revenue: Transparency services revenue represents fees charged for the use of our Trade Reporting and Compliance Engine® (TRACE®) and the Alternative Display Facility® (ADF®), as well as fees charged for our OTC Reporting Facility™ (ORF™) service for the reporting of trades and comparison in certain OTC equity securities. Transparency services revenue was relatively flat year over year.

REVENUES BY TYPE — 2013



Components of total revenue in 2013 and 2012:

	2013	2012
	(in millions)	
Regulatory revenue	$414.6	$406.9
User revenue	206.4	164.9
Contract services revenue	115.2	128.2
Transparency services revenue	58.4	56.9
Dispute resolution revenue	36.2	41.7
Other revenue	9.6	10.9
Total operating revenue	840.4	809.5
Fines	60.4	69.1
Activity assessment (net)	(0.1)	—
Total revenue	$900.7	$878.6

Revenues (continued)

Dispute resolution revenue: The decrease in dispute resolution revenue for 2013 was driven by a 13.6 percent decrease in the number of new cases filed.

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

Fines: While the number of monetary sanctions increased slightly from 745 in 2012 to 754 in 2013, the average fine decreased from approximately $92,700 in 2012 to approximately $80,100 in 2013. The use of fine monies is limited to capital expenditures and regulatory projects, such as our risk-based exam program, which are reported to our Board of Governors.

Management Report on Financial Operations (continued)

Expenses

Expenses for 2013 remained relatively flat compared to 2012. On average, compensation and benefits expense annually increases between 3 and 4 percent as a result of increases related to employee merit, promotion, equity and incentive compensation. Expenses increased in 2013 as well due to the recognition of severance costs associated with the VRP. These increases were offset by cost savings across technology functions and occupancy, which resulted in expenses remaining essentially flat year over year.

Compensation and benefits: FINRA is largely a service organization. Our expenses are driven by employee-related costs, as we seek to attract, develop and retain a diverse group of talented staff, particularly in the highly specialized areas of regulation and technology, to enable FINRA to carry out its regulatory mandate in today's ever-changing markets. Employee compensation and benefits are FINRA's largest expense, representing 70 percent of total expenses in 2013. FINRA had approximately 3,400 employees as of both December 31, 2013 and 2012.

The increase in compensation and benefits expense was driven by $19.5 million of severance costs and $12.7 million of additional pension plan service credits associated with the VRP, as well as annual increases related to employee merit, promotion, equity and incentive compensation.

Professional and contract services: The decrease in professional and contract services was driven by reduced technology costs related to application development, maintenance and production services, as these services were insourced due to the expiration of our technology services contract with a third party vendor on December 31, 2012.

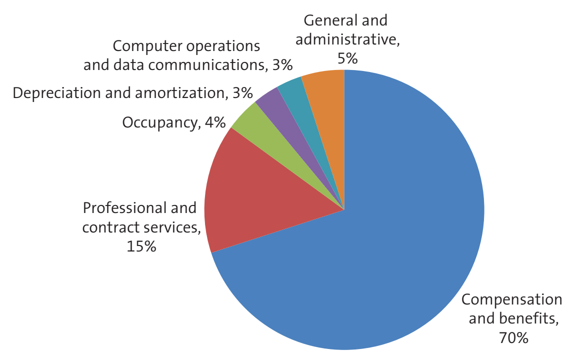
Occupancy: The decrease in occupancy was primarily driven by cost savings associated with the relocation of a portion of our New York regulatory operations in July 2012.

Depreciation and amortization: The decrease in depreciation and amortization was driven by a decrease in data center asset depreciation, capitalized software amortization and the extension of useful lives related to certain technology assets.

Computer operations and data communications: The decrease in computer operations and data communications was driven by a decrease in the purchase of computer equipment and supplies.

General and administrative: The decrease in general and administrative expense was driven by the managed reduction of expenses related to office supplies, marketing and copying, as well as a decrease in Foundation grant payments and expenses incurred. Additionally, we recorded losses in 2012 on the disposition of fixed assets located in the District of Columbia and New York upon the expiration of those leases.

EXPENSES BY TYPE — 2013



Components of total expenses in 2013 and 2012:

	2013	2012
	(in millions)	
Compensation and benefits	$700.3	$628.9
Professional and contract services	145.5	165.4
Occupancy	37.3	54.2
Depreciation and amortization	31.7	46.6
Computer operations and data communications	31.2	36.8
General and administrative	52.9	60.8
Total expenses	$998.9	$992.7

Management Report on Financial Operations (continued)

Investment Income and Other Expense

Traditionally, FINRA has relied on investment returns to provide financial resources to supplement operating results. In 2013, trading portfolio returns and the performance of our other investments was 5.7 percent compared to 7.1 percent in 2012.

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

Net realized and unrealized investment gains: The decrease in net realized and unrealized investment gains in 2013 was driven primarily by holding losses on our trading portfolio.

Equity earnings from other investments: The performance of our broadly diversified multi-asset fund in 2013 improved from 2012 due to market conditions and was the primary driver of the gain for the year.

Other expense: Other expense represents income taxes on unrelated business income earned primarily from mortgage licensing and examination services.

Components of investment income and other expense in 2013 and 2012:

	2013	2012
	(in millions)	
Interest and dividend income	$24.8	$ 24.9
Net realized and unrealized investment gains	2.4	42.5
Equity earnings from other investments	73.6	59.1
Other expense	(0.9)	(1.9)
Total investment income and other expense	$99.9	$124.6

CONCLUSION

As noted in FINRA Chairman and CEO Rick Ketchum's letter, the fee increases and cost control efforts discussed above made 2013 a solid year financially, especially when considering the effect of severance and pension-related costs associated with the VRP. Furthermore, we will continue to evaluate cost-savings initiatives and review our fee structure to ensure our strong financial position without compromising our regulatory mission.

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

Management Report on Internal Control Over Financial Reporting

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

FINRA maintains a system of internal control that is designed to provide reasonable assurance as to the fair and reliable preparation and presentation of the consolidated financial statements, as well as to safeguard assets from unauthorized use or disposition that could have a material effect on the 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 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 financial statements.

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

Under the supervision of the Chairman and Chief Executive Officer and the Chief Financial Officer, FINRA's management assessed the effectiveness of FINRA's internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control — Integrated Framework* (1992 framework). This evaluation included reviews of the documentation of controls, evaluations of the design effectiveness of controls, tests of the operating effectiveness of controls and a conclusion on management's evaluation. Based on this assessment, we assert that FINRA maintained effective internal control over financial reporting as of December 31, 2013.

FINRA's financial statements included in this annual report have been audited by Ernst & Young LLP, an independent registered public accounting firm. Ernst & Young LLP has also issued an attestation report on FINRA's internal control over financial reporting as of December 31, 2013.

June 19, 2014

Richard G. Ketchum
Chairman and Chief Executive Officer

Todd T. Diganci
Executive Vice President and Chief Financial Officer

Audit Committee Report

In accordance with its written Charter adopted by the Board of Governors (Board), the Audit Committee of the 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. Each member of the Audit Committee is an independent director as defined by the Securities and Exchange Commission's (SEC) Rule 10A-3 under The Securities Exchange Act of 1934, Listing Standards Relating to Audit Committees. In addition, the Audit Committee and Board have determined that James E. Burton and Charles A. Bowsher are audit committee financial experts, as defined by the SEC. The Charter gives the Audit Committee responsibility for monitoring the independence of the independent auditor and recommending the appointment of the independent auditor for approval by the Board, and makes clear that the independent auditor is accountable to the Audit Committee and the Board, as representatives of the members and the public. In addition, the Charter and the By-Laws of FINRA make the Chief Audit Executive directly responsible to the Audit Committee. In all respects, the Charter complies with standards applicable to publicly-owned companies. (The Charter for the FINRA Audit Committee is available at: *www.finra.org/AboutFINRA/Leadership/Committees/P086280.)*

During 2013, the Audit Committee met seven times, with the Audit Committee members having a 94.3 percent attendance rate.

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 had discussions with management, the internal auditors, and the independent auditor related to the quality and adequacy of FINRA's internal controls and the internal audit organization, responsibilities, budget and staffing.

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

Independent Registered Public Accountant Fees

	FINRA (1)	
	2013	2012
Audit services (2)	$1,003,200	$ 888,520
Audit-related services (3)	247,800	232,600
Tax services (4)	235,000	113,846
Total	$1,486,000	$1,234,966

(1) FINRA based its fees reported for 2013 on fees approved by FINRA's Audit Committee as of April 4, 2014. The 2013 audit services, audit-related services and tax services include estimates to complete the current work in process. FINRA has updated the 2012 fees from the prior year's report to reflect final amounts paid for the 2012 approved services.

(2) For 2013 and 2012, audit services represent the financial statement audit and the attestation on internal control.

(3) Audit-related services in 2013 and 2012 reflect fees associated with the special-purpose audit of the Investment Adviser Registration Depository, agreed-upon procedures over the Central Registration Depository, and the audit of the FINRA Investor Education Foundation and the Company's employee benefit plans.

(4) Tax services represent fees related to tax return preparation and review services in connection with the 2013 and 2012 Form 990s and related Form 990-Ts, as well as tax compliance, advice and planning.

The Audit Committee discussed and reviewed with the independent auditor all communications required under the rules adopted by the Public Company Accounting Oversight Board (PCAOB). Further, the Committee has reviewed and discussed

Audit Committee Report (continued)

with management and with EY, with and without management present, the audited financial statements as of December 31, 2013; management's assessment of the effectiveness of FINRA's internal control over financial reporting; and EY's report on the financial statements and on FINRA's internal control over financial reporting. Based on those discussions, the Audit Committee recommended to the Board that FINRA's audited financial statements and related reports on internal control be included in the Annual Report for the year ended December 31, 2013.

Members of the Audit Committee*:

James E. Burton, Chair
Charles A. Bowsher
John F. X. Dolan
W. Dennis Ferguson

June 19, 2014

* Gary H. Stern, former President of the Federal Reserve Bank of Minneapolis, was a member of the Audit Committee throughout 2013 and resigned from the Board of Governors on April 16, 2014.

Investment Committee Report

Year Ended December 31, 2013

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

FINRA's portfolio earned 5.7 percent in 2013, including the returns from its cash operating fund. Overall, 2013 was an excellent year for stock investors, as the S&P 500 gained 32.4 percent — its best return since 1997. The Barclays U.S. Aggregate Bond Index lost 2 percent amid concerns that the U.S. Federal Reserve would taper its "quantitative easing" program. The chart below shows investment results for FINRA and for several common market benchmarks. As of December 31, 2013, FINRA's investment portfolio, including cash, totaled approximately $1.7 billion. Portfolio liquidity remains strong, with $860 million, or 52 percent, available in 30 days or less as of December 31, 2013.

		Annualized Returns		
	2013	3-Year	5-Year	Inception
FINRA (1)	5.7%	4.9%	6.9%	3.7% (2)
U.S. Consumer Price Index	1.5%	2.1%	2.1%	2.4%
Barclays U.S. Aggregate	–2.0%	3.3%	4.4%	4.5%
S&P 500	32.4%	16.2%	17.9%	7.4%

(1) Total return percentages exclude accounting impairment charges and exclude the one-time sale of legacy private investments in 2010.

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

The FINRA Board of Governors 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 of Governors and other investment professionals, advises the Board of Governors 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 five times during 2013.

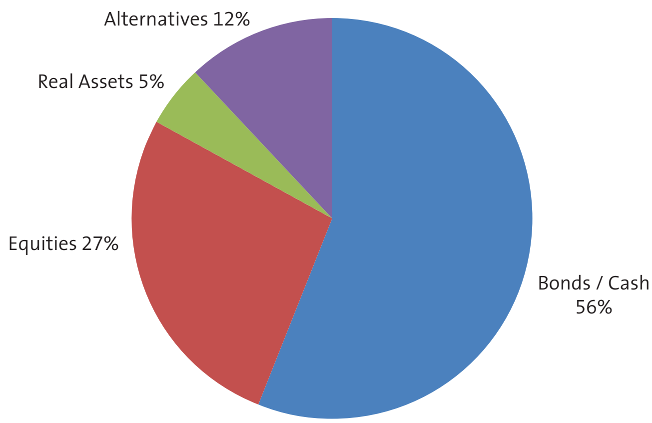
FINRA operates under a low volatility strategy with the objective of producing a lower-risk portfolio than a traditional 60 percent stock/40 percent bond allocation. FINRA's limited-partnership agreement with HighVista II Limited Partnership, a broadly diversified multi-asset fund managed by HighVista Strategies LLC, uses risk-controlled strategies to obtain market and non-correlated exposures. FINRA's fixed income portfolio is a diversified, high-quality investment-grade portfolio managed by Wellington Management Company, LLP (Wellington). In September 2013, the Board of Governors approved the addition of a third mandate to further diversify the portfolio and reduce interest-rate risk with a low-cost, income-oriented equity allocation also managed by Wellington. With this revised policy, FINRA continues to maintain a conservative and broadly diversified investment portfolio, representing a wide range of assets and asset classes, in order to attain acceptable levels of risk and return. The Investment Committee reviews the policy annually and recommends changes subject to approval by the Board of Governors.

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

Investment Committee Report (continued)

The chart below shows portfolio exposures as of December 31, 2013. Market exposures are 56 percent bonds/cash and 27 percent equities. Alternatives, at 12 percent, consist of non-correlated exposures; and real assets, at 5 percent, comprise investments in real estate, commodities and Treasury Inflation-Protected Securities (TIPS).

Exposures as of December 31, 2013



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

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

Members of the Investment Committee**:

John J. Brennan, Chair
James E. Burton
William H. Heyman
Scott C. Malpass
Richard S. Pechter
Richard C. Romano

June 19, 2014

** Gary H. Stern, former President of the Federal Reserve Bank of Minneapolis, was a member of the Investment Committee throughout 2013 and resigned from the Board of Governors on April 16, 2014.

Management Compensation Committee Report

Year Ended December 31, 2013

FINRA Compensation Philosophy

FINRA's compensation philosophy for all employees is a pay-for-performance model seeking 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 is reflected in FINRA's compensation policy, which applies to employees at all levels.

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 used to establish these structures. FINRA utilizes specific position survey data to evaluate skill sets and benchmark the compensation paid to internal talent to determine whether compensation is comparable to the price that those skills would command on the open market. Ultimately, in assessing how to price staff positions, FINRA places an emphasis foremost on the demands and competitiveness of each job to ensure that FINRA is paying equitably for skills, expertise and performance level within an 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 comparators, the uniqueness of functions performed, the need for specialized expertise in financial services and securities law, and a constantly changing environment under heightened scrutiny.

As a general policy for all employees, FINRA has determined that its competitive compensation positioning should be considered against a broad section of financial services/capital market companies, as this sector is the most likely from which FINRA will recruit talent and talent is recruited 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/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), composed of solely public members of the Board of Governors (Board), is responsible for approving salary levels and incentive compensation ranges for top-level executives. The Committee determines the incentive compensation awards based on actual performance. In determining salary and incentive compensation, management and the Committee consider operational, strategic and financial factors in addition to individual performance. The salary and incentive compensation recommendations for the CEO are reviewed and approved by the Board annually.

Management Compensation Committee Report (continued)

The Committee has the sole right and responsibility to hire and terminate a compensation consultant. In 2013, as in past years, the Committee engaged Mercer, Inc. (Mercer), an independent third-party compensation consultant, to prepare a compensation study, which included objective analysis of current compensation levels and benchmarking, using information from a comparable segment of the market for key executives. To ensure the independence of Mercer:

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

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

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

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

*Mercer is a wholly owned subsidiary of Marsh & McLennan Companies, a global professional services firm, as is Marsh USA (Marsh), both of which provide financial and professional insurance brokerage services to FINRA. Fees paid to Marsh for these services are reasonable and in line with industry standards. Through an affinity program with FINRA, Marsh is also available to provide FINRA members with insurance products at the option of the FINRA member. FINRA receives a royalty fee from Marsh for products sold to FINRA members, which is contributed to the FINRA Investor Education Foundation (the Foundation) to assist the Foundation's mission of providing underserved Americans with the knowledge, skills and tools necessary for financial success throughout life. Royalty fees of $1.4 million and $1.5 million were received and contributed to the Foundation during 2013 and 2012, respectively.

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

Summary Compensation Table

The following table presents actual 2013 and 2012 compensation data in the year paid (all amounts are in dollars). The 2014 salary information represents the base annual salary at which the top ten executives, as of June 19, 2014, are compensated. It does not represent 2014 year-to-date earnings. The 2014 incentive compensation amounts represent the actual payment in February 2014 based on 2013 performance. Other amounts, including deferred compensation and other benefits, are not presented for 2014, as these accumulate over the course of the year and final amounts are not determined until year-end. For the compensation details related to the full list of statutory officers and key employees, see FINRA's 2013 Form 990 tax returns.

Name and principal position		Salary (1)	Incentive compensation (2)	Deferred compensation (3)	Other benefits (4)	Total
Richard Ketchum	2014	1,000,000	1,500,000	*	*	2,500,000
Chairman and Chief Executive Officer	2013	1,000,000	1,250,000	335,772	37,984	2,623,756
	2012	1,000,000	1,250,000	340,201	39,504	2,629,705
Todd Diganci	2014	550,000	680,000	*	*	1,230,000
EVP and Chief Financial Officer	2013	500,000	680,000	38,339	24,049	1,242,388
	2012	500,000	680,000	35,603	30,920	1,246,523
Steven Randich	2014	500,000	525,000	*	*	1,025,000
EVP and Chief Information Officer	2013	394,231	—	102,950	17,644	514,825
	2012	—	—	—	—	—
Robert Colby	2014	500,000	510,000	*	*	1,010,000
EVP and Chief Legal Officer	2013	500,000	300,000	126,553	21,867	948,420
	2012	259,615	—	27,500	9,943	297,058
Linda Fienberg	2014	459,700	360,000	*	*	819,700
President, Dispute Resolution	2013	459,700	360,000	62,789	38,543	921,032
	2012	459,700	400,000	62,263	37,010	958,973
Susan Axelrod	2014	450,000	475,000	*	*	925,000
EVP, Regulatory Operations	2013	391,923	425,000	156,590	39,680	1,013,193
	2012	351,538	375,000	103,160	34,018	863,716
Carlo di Florio	2014	450,000	435,000	*	*	885,000
Chief Risk Officer and Head of Strategy	2013	225,000	—	20,250	17,474	262,724
	2012	—	—	—	—	—
J. Bradley Bennett	2014	435,000	490,000	*	*	925,000
EVP, Enforcement	2013	435,000	450,000	165,466	13,759	1,064,225
	2012	433,847	435,000	115,401	13,457	997,705
Thomas Gira	2014	425,000	475,000	*	*	900,000
EVP, Market Regulation	2013	400,000	455,000	77,193	29,705	961,898
	2012	397,870	455,000	73,047	42,263	968,180
Steven Joachim	2014	400,000	450,000	*	*	850,000
EVP, Transparency Services	2013	370,000	485,000	62,544	37,962	955,506
	2012	370,000	410,000	1,643,860 (5)	37,194	2,461,054

* 2014 deferred compensation and other benefits cannot be fully determined until the end of the calendar year, and are therefore not included in the above table. The 2013 compensation for Mr. Randich and Mr. di Florio, and the 2012 compensation for Mr. Colby, represent a partial year of employment.

Management Compensation Committee Report (continued)

1 Salary is paid bi-weekly, one week in arrears. 2014 salary information represents the executives' current base annual rate of pay as of June 19, 2014.

2 Incentive compensation is paid after the close of the calendar year based on the prior year's performance. Payments are reflected in the table above in the year paid, consistent with FINRA's reporting in its Form 990 tax returns. Thus, the amount presented in 2014 was paid in February 2014, based on 2013 performance.

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

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

5 This amount represents a one-time cliff vesting event within the supplemental defined benefit retirement plan.

Components of Compensation

Direct Compensation

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

Indirect Compensation

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

Members of the Management Compensation Committee:

William H. Heyman, Chair
Charles A. Bowsher
James E. Burton
John Davidson
Shelly Lazarus
Joel Seligman
Kurt P. Stocker

June 19, 2014

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

Board of Governors of

Financial Industry Regulatory Authority, Inc.

We have audited the Financial Industry Regulatory Authority, Inc.'s (FINRA) internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). FINRA's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, FINRA maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of FINRA as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for the years then ended and our report dated June 19, 2014, expressed an unqualified opinion thereon.

Ernst + Young LLP

McLean, Virginia
June 19, 2014

Report of Independent Registered Public Accounting Firm

Board of Governors of

Financial Industry Regulatory Authority, Inc.

We have audited the accompanying consolidated balance sheets of the Financial Industry Regulatory Authority, Inc. (FINRA) as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of FINRA at December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), FINRA's internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated June 19, 2014, expressed an unqualified opinion thereon.

Ernst + Young LLP

McLean, Virginia
June 19, 2014

FINRA Consolidated Balance Sheets

(In millions)

	December 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 376.6	$ 356.9
Investments:		
Trading, at fair value	728.3	710.3
Available-for-sale, at fair value	10.7	16.0
Foundation available-for-sale, at fair value	28.8	24.0
Receivables, net	107.0	121.0
Investments receivable	10.0	9.1
Other current assets	31.4	29.5
Total current assets	1,292.8	1,266.8
Property and equipment:		
Land, buildings and improvements	119.1	117.6
Data-processing equipment and software	254.7	253.5
Furniture, equipment and leasehold improvements	121.9	119.7
	495.7	490.8
Less accumulated depreciation and amortization	(363.6)	(340.6)
Total property and equipment, net	132.1	150.2
Goodwill and other intangible assets, net	26.0	27.8
Other investments	799.7	730.3
Other assets	6.0	13.4
Total assets	$2,256.6	$2,188.5

See accompanying notes.

FINRA Consolidated Balance Sheets (continued)

(In millions)

	December 31, 2013	December 31, 2012
Liabilities and equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 31.8	$ 33.4
Accrued personnel and benefit costs	191.9	153.9
Deferred revenue	71.4	72.2
Deferred contribution income	6.7	8.2
Deposits and renewals	84.3	69.5
Investments payable	151.5	132.0
Other current liabilities	5.3	6.2
SEC fee payable	116.8	124.2
Total current liabilities	659.7	599.6
Accrued pension and other postretirement benefit costs	136.6	289.9
Deferred revenue	14.3	18.0
Deferred contribution income	2.9	8.9
Other liabilities	30.3	30.8
Total liabilities	843.8	947.2
Equity	1,486.5	1,484.8
Unrealized gain on available-for-sale investments	3.2	1.9
Net unrecognized employee benefit plan amounts	(76.9)	(245.4)
Total equity	1,412.8	1,241.3
Total liabilities and equity	$2,256.6	$2,188.5

See accompanying notes.

FINRA Consolidated Statements of Operations

(In millions)

	Years Ended December 31, 2013	2012
Revenues		
Operating revenues		
Regulatory fees, net of firm rebates of $20.0 in 2013 and $5.4 in 2012	$ 414.6	$ 406.9
User fees	206.4	164.9
Contract services fees	115.2	128.2
Transparency services fees	58.4	56.9
Dispute resolution fees	36.2	41.7
Other	9.6	10.9
Total operating revenues	840.4	809.5
Fines	60.4	69.1
Activity assessment	379.9	357.8
Total revenues	1,280.7	1,236.4
Activity assessment cost of revenues	(380.0)	(357.8)
Net revenues	900.7	878.6
Expenses		
Compensation and benefits	700.3	628.9
Professional and contract services	145.5	165.4
Occupancy	37.3	54.2
Depreciation and amortization	31.7	46.6
Computer operations and data communications	31.2	36.8
General and administrative	52.9	60.8
Total expenses	998.9	992.7
Interest and dividend income	24.8	24.9
Operating loss	(73.4)	(89.2)
Other income (expense)		
Net realized and unrealized investment gains	2.4	42.5
Equity earnings from other investments	73.6	59.1
Other expense	(0.9)	(1.9)
Net income	$ 1.7	$ 10.5

See accompanying notes.

FINRA Consolidated Statements of Comprehensive Income (Loss)

(In millions)

	Years Ended December 31,	
	2013	2012
Net income	$ 1.7	$ 10.5
Change in unrealized gain or loss on available-for-sale investments	1.3	(1.2)
Employee benefit plan adjustments	168.5	(54.9)
Comprehensive income (loss)	$171.5	$(45.6)

See accompanying notes.

FINRA Consolidated Statements of Changes in Equity

(In millions)

		Accumulated Other Comprehensive Income (Loss)		
	Equity	Unrealized Gain (Loss) on Available-for-Sale Investments	Net Unrecognized Employee Benefit Plan Amounts	Total
Balance, January 1, 2012	$1,474.3	$ 3.1	$(190.5)	$1,286.9
Comprehensive income (loss)	10.5	(1.2)	(54.9)	(45.6)
Balance, December 31, 2012	1,484.8	1.9	(245.4)	1,241.3
Comprehensive income	1.7	1.3	168.5	171.5
Balance, December 31, 2013	$1,486.5	$ 3.2	$ (76.9)	$1,412.8

See accompanying notes.

FINRA Consolidated Statements of Cash Flows

(In millions)

	Years Ended December 31,	
	2013	2012
Reconciliation of net income to cash provided by (used in) operating activities		
Net income	$ 1.7	$ 10.5
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	31.7	46.6
Net realized and unrealized investment gains	(2.4)	(42.5)
Undistributed equity earnings from other investments	(73.6)	(59.1)
Bad debt expense	4.5	5.0
Other net non-cash income items	—	2.8
Net change in operating assets and liabilities, net of acquisitions and dispositions:		
Receivables, net	9.5	(29.9)
Other current assets	2.5	8.0
Other assets	11.3	11.0
Accounts payable and accrued expenses	(1.2)	(3.4)
Accrued personnel and benefit costs	38.0	13.0
Deferred revenue	(4.5)	14.9
Deferred contribution income	(7.5)	(8.6)
Deposits and renewals	14.8	4.3
SEC fee payable	(7.4)	13.3
Other current liabilities	(0.9)	(0.4)
Accrued pension and other postretirement benefit costs	15.2	1.0
Other liabilities	(0.5)	4.5
Net cash provided by (used in) operating activities	$ 31.2	$ (9.0)

See accompanying notes.

FINRA Consolidated Statements of Cash Flows (continued)

(In millions)

	Years Ended December 31,	
	2013	2012
Cash flow from investing activities		
Net purchases of trading securities	$ (25.4)	$ (56.6)
Proceeds from redemptions of available-for-sale investments	33.9	54.9
Purchases of available-for-sale investments	(6.7)	(29.2)
Return of capital and proceeds from redemptions from other investments	4.1	4.5
Net purchases of property and equipment	(10.3)	(23.2)
Net cash used in investing activities	(4.4)	(49.6)
Cash flow from financing activities		
Change in donor-restricted and other restricted cash	(7.1)	(8.6)
Net cash used in financing activities	(7.1)	(8.6)
Increase (decrease) in cash and cash equivalents	19.7	(67.2)
Cash and cash equivalents at beginning of year	356.9	424.1
Cash and cash equivalents at end of year	$376.6	$356.9

See accompanying notes.

FINRA 2013 Notes to Consolidated Financial Statements

1. ORGANIZATION AND NATURE OF OPERATIONS

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

We are the largest independent regulator of securities firms doing business with the public in the United States. We regulate the activities of the U.S. securities industry and perform market regulation under contract for the New York Stock Exchange LLC (NYSE), NYSE Arca, Inc. (NYSE Arca), NYSE MKT LLC (NYSE MKT), the NASDAQ OMX Group, Inc. (NASDAQ), NASDAQ OMX BX, Inc. (Boston), NASDAQ OMX PHLX LLC (Philadelphia), the Direct Edge exchanges (EDGA and EDGX) and other exchanges. We also regulate the over-the-counter (OTC) securities markets and operate transparency facilities. Our regulatory functions include onsite examinations of securities firms, continuous automated surveillance of markets and disciplinary actions against firms and registered representatives.

We provide arbitration and mediation services to assist in the resolution of monetary and business disputes between and among investors, securities firms and registered representatives. We also provide dispute resolution services for several exchanges through contractual agreements, thereby offering consistent procedures and the uniformity of a single forum for the resolution of securities-industry related disputes. We developed and continue to enhance BrokerCheck, a free tool that helps investors research the professional backgrounds of current and former FINRA-registered brokerage firms and brokers, as well as investment adviser firms and representatives.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

USE OF ESTIMATES

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

CASH AND CASH EQUIVALENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS

Debt and Marketable Equity Securities

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

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. As of December 31, 2013 and 2012, $141.5 million and $122.9 million of net non-cash unsettled trade activity is included in our statements of cash flows within investing activities.

Other Investments

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

Other-Than-Temporary Impairment

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

RECEIVABLES, NET

The Company’s receivables are primarily concentrated with FINRA-registered firms, associated persons, NYSE Euronext, NASDAQ and other exchanges. The consolidated financial statements present receivables net of an allowance for uncollectible accounts. As of December 31, 2013 and 2012, an allowance for uncollectible accounts of $20.8 million and $17.8 million, respectively, is presented within receivables, net in the accompanying consolidated balance sheets. 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, 2013 and 2012, primarily relates to fines, regulatory services 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

several factors, including a periodic assessment of the collectibility of each account. In circumstances where a specific firm's inability to meet its financial obligations is known (*e.g.*, bankruptcy filings), we record a specific provision for bad debts to reduce the receivable to the amount we reasonably believe will be collected.

PROPERTY AND EQUIPMENT

FINRA records property and equipment at cost less accumulated depreciation. We expense repairs and maintenance costs as incurred. We calculate depreciation using the straight-line method over estimated useful lives ranging from 10 to 40 years for buildings and improvements, two to five years for data-processing equipment and software, and five to 10 years for furniture and equipment. We amortize leasehold improvements using the straight-line method over the lesser of the useful life of the improvement or the term of the applicable lease, including any extension periods at our option. Depreciation and amortization expense for property and equipment, including amortization of capitalized software costs, totaled $27.9 million and $38.3 million for 2013 and 2012.

SOFTWARE COSTS

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

The consolidated financial statements reflect unamortized, capitalized software development costs of $12.9 million and $14.7 million as of December 31, 2013 and 2012, within total property and equipment, net in the consolidated balance sheets. Net additions to capitalized software were $2.7 million and $5.7 million in 2013 and 2012. Amortization of capitalized internal computer software costs totaled $4.5 million and $8.9 million for 2013 and 2012, and is included in depreciation and amortization in the consolidated statements of operations.

GOODWILL AND INTANGIBLE ASSETS

FINRA's goodwill of $15.0 million as of December 31, 2013 and 2012, represents the excess of consideration paid in 2007 for the acquired member regulation operations of NYSE over the fair value of the net assets acquired. The acquisition of these assets provided FINRA with access to the membership of the NYSE, NYSE Arca and NYSE MKT, as well as NYSE copyrights and proprietary software. Our acquired NYSE intangible assets apart from goodwill were recognized at fair value as of the date acquired. We evaluate goodwill for impairment annually as of December 31. Based on our annual evaluation, we did not recognize any impairments of goodwill as of December 31, 2013 and 2012. Intangible assets with finite lives are amortized over their useful lives and tested for impairment when events or circumstances warrant. Intangible assets related to the acquired member regulation operations of NYSE totaled $4.3 million, net of accumulated amortization of $12.5 million as of December 31, 2013, and $5.2 million, net of accumulated amortization of $11.6 million as of December 31, 2012. We also have intangible assets related to software licenses, applications and patterns that are not related to the NYSE consolidation transaction in the amount of $6.7 million, net of accumulated amortization of $5.4 million as of December 31, 2013, and $7.6 million, net of accumulated amortization of $5.3 million as of December 31, 2012. Amortization expense for intangible and other assets totaled $3.8 million and $8.3 million for 2013 and 2012. As of December 31, 2013, estimated amortization expense related to the acquired member regulation operations of NYSE for each of the next five years is $0.9 million per year for the years 2014 through 2017, and $0.5 million for 2018.

IMPAIRMENT OF LONG-LIVED ASSETS

We review our long-lived assets for impairment annually. In the event facts and circumstances indicate that long-lived assets or other assets may be impaired, we perform an evaluation of recoverability that compares the estimated future

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

undiscounted cash flows associated with the asset to the asset's carrying amount. If the evaluation failed the recoverability test, we would then prepare a discounted cash flow analysis to estimate fair value and the amount of any impairment. In 2013 and 2012, there were no indicators of long-lived asset impairment, and no impairment charges were recognized.

DEFERRED REVENUE

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

The estimated service period for firm application fees, based on historical experience, is 12 years as of December 31, 2013, and 11 years as of December 31, 2012. The change in estimated service period represents a change in accounting estimate that did not have a material effect on FINRA's consolidated statements of operations.

GLOBAL RESEARCH ANALYST SETTLEMENT

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

As disclosed in Note 1, the Foundation is a consolidated subsidiary of FINRA. At the consolidated level, FINRA presents the amounts the Foundation received in relation to the Order, including interest and dividends earned on these funds, as deferred contribution income in the consolidated balance sheets, and recognizes the related revenue, net of interest and dividends earned on the funds, as the Foundation makes grant payments and incurs expenses pursuant to the guidelines in the Order. For the periods ended December 31, 2013 and 2012, the Foundation incurred grant payments and expenses against the GRA Settlement funds of $7.4 million and $8.7 million.

Included in other current assets and other long-term assets in the consolidated balance sheets are funds from the GRA Settlement, including the interest earned on these funds. The GRA Settlement funds are included in other assets because their use is restricted to the Foundation. The Foundation invests the GRA Settlement funds in a U.S. Treasury money market fund in accordance with the terms of the GRA Settlement, which stipulates that funds received must be invested in money market funds or securities with maturities of less than six months and backed by the full faith and credit of the federal government. The current and long-term portions of the GRA Settlement funds as of December 31, 2013, were $6.7 million and $3.4 million. The current and long-term portions of the GRA Settlement funds as of December 31, 2012, were $8.2 million and $9.3 million.

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

FINRA 2013 Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEPOSIT AND RENEWAL LIABILITIES

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

OTHER LIABILITIES

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

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

As administrator, FINRA is required to monitor the cumulative surplus of the IARD program in accordance with the agreement with the SEC dated July 23, 2009, as amended. The SEC will determine the distribution of the cumulative surplus attributable to filings by SEC-registered investment advisers upon termination of the agreement for the benefit of IARD filers. FINRA has applied the same principles of the agreement with the SEC to the cumulative surplus attributable to filings by state-registered investment advisers.

As of December 31, 2013 and 2012, FINRA recognized the cumulative surplus for the IARD program in its consolidated financial statements as follows:

	As of December 31,	
	2013	2012
	(in millions)	
Current deferred revenue	$ 3.3	$ 3.2
Non-current deferred revenue	0.4	0.4
Other long-term liabilities	10.0	8.5
Total	$13.7	$12.1

REVENUE RECOGNITION AND COST OF REVENUE

Regulatory Fees

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

User Fees

User fees are charged for initial and annual registrations, qualification examinations, FINRA-sponsored educational programs and conferences, reviews of advertisements and corporate filings (corporate financing fees). FINRA charges

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

registration fees for all registered representatives and investment advisers. First-year registration and application fees consist of two deliverables that we account for as separate units of accounting: upfront registration delivered at inception and an ongoing service obligation for the remainder of that calendar year. We allocate arrangement consideration to upfront registrations based on our estimates of selling price. We estimate the selling prices of upfront registrations based on our internal cost structure, pricing practices and objectives, and historical prices. We allocate arrangement consideration to the remaining service obligation based on vendor-specific objective evidence of the pricing for these services. Upfront registration revenue is recognized over the estimated service period for individual representatives (four years) and firms (12 years as of December 31, 2013 and 11 years as of December 31, 2012), while the remaining service obligation revenue is recognized ratably over the related remaining annual period. While the pricing model currently in use captures all critical variables, unforeseen changes due to external market forces may result in the revision to some of our inputs. These modifications may result in the allocation of consideration in future periods that differs from the allocation presently in use. Absent a significant change in the pricing inputs, future changes in the pricing model are not expected to materially impact our allocation of arrangement consideration.

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

Contract Services Fees

Contract services fees represent amounts charged for regulatory services provided primarily to the NASDAQ family of markets and the NYSE family of markets, EDGA and EDGX, and other exchanges, as well as the Trade Reporting Facilities (TRFs), for services including surveillance reviews, investigations, examinations and the disciplinary process. Contract services fees also include fees for the mortgage licensing system FINRA developed and deployed to the State Regulatory Registry LLC (SRR). We recognize contract services fees as the services are provided.

Transparency Services Fees

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

Dispute Resolution Fees

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

are recognized as the service is provided. Dispute resolution fees also include arbitrator and mediator application fees that are recognized as the service is provided. Arbitrator application fees are passed on to a third-party vendor to perform background checks.

Fines

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

Activity Assessment Revenues and Cost of Revenues

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

We recover the cost of the Section 31 fees and assessments through an activity assessment, charged to the firm responsible for clearing the transaction, based on the aggregate dollar amount of sales of covered securities transacted by or through any firm other than on a national securities exchange. The assessments billed to securities firms are recognized when the transactions are reported. As of December 31, 2013 and 2012, we had $31.7 million and $35.9 million, respectively, of SEC fee receivables presented within receivables, net in the accompanying consolidated balance sheets. FINRA, as the primary obligor to the SEC, reports the activity assessment on a gross basis within revenues. Amounts due to the SEC are reported as a cost of revenue. We report amounts pending remittance to the SEC in SEC fee payable in the accompanying consolidated balance sheets.

We rely on third-party providers and securities firms to report activity in a complete, accurate and timely manner for purposes of determining the activity assessment revenues and cost of revenues. As a result, subsequent adjustments may occur. We recognize any resulting activity assessment adjustments in the period they become known to us.

Interest and Dividend Income

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

PENSION AND OTHER POSTRETIREMENT BENEFITS

FINRA provides two non-contributory defined benefit pension plans for the benefit of eligible employees. The non-contributory defined benefit plans consist of a qualified Employees Retirement Plan (ERP) and a non-qualified Supplemental Executive Retirement Plan (SERP). Both plans are now closed to new participants. We also provide an employer-funded defined contribution Retiree Medical Account Plan (RMA Plan) to assist our retirees with the cost of health care expenses during retirement. Under the RMA Plan, Retiree Medical Accounts are created for eligible employees and retirees, and fixed annual credits are applied to those accounts for each year of FINRA service beginning at age 40. In calculating the expense and liability related to all of the abovementioned plans, we use several statistical and other factors, which attempt to anticipate future events. Key factors include assumptions about the expected rates of return on plan assets and the discount rate as determined by FINRA, within certain guidelines, as well as assumptions regarding future salary increases, mortality, turnover, retirement ages and the medical expense trend rate. We consider market conditions, including changes in investment returns and interest rates, in making these assumptions. The discount rate

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

INCOME TAXES

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

CONCENTRATION OF CREDIT RISK

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

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

We maintain a broadly diversified investment portfolio, representing a wide range of assets and asset classes, in order to attain acceptable levels of risk and return. Our investment portfolio, excluding Foundation investments, consists of investments in debt securities, equity securities, private investments and illiquid investments pending redemption. Our limited partnership investment represents approximately 51 percent of our total invested assets, excluding cash, as of December 31, 2013. The Foundation's investment portfolio consists of mutual funds and a commingled fund.

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

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income (ASC 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The ASU does not change the current requirements for reporting net income or OCI in financial statements, but entities are required to provide information about the amounts reclassified out of accumulated OCI by component. In addition, entities are also required to present significant amounts reclassified out of accumulated OCI either by the respective line items of net income or cross-reference to other disclosures depending on whether the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety. The ASU is effective for FINRA on January 1, 2014. As the ASU deals with the presentation of amounts reclassified out of accumulated OCI, the adoption of the provisions of the ASU are not expected to have a material impact on our consolidated results of operations and financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In July 2013, the FASB issued ASU No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. This ASU provides the final guidance that requires unrecognized tax benefits to be presented as a decrease in a net operating loss, similar tax loss or tax credit carryforward if certain criteria are met. The ASU will be effective for FINRA on January 1, 2015; however, early adoption is permitted. We are currently assessing the potential impact that the ASU will have on our consolidated financial statements.

3. DEFERRED REVENUE

The following is a summary of amounts that we included in current and non-current deferred revenue as of December 31, 2013, and the years over which we will recognize those amounts:

	Registration	Arbitration	Annual and Other	Total
		(in millions)		
Year ending December 31,				
2014	$ 7.5	$4.5	$59.4	$71.4
2015	5.3	0.1	1.8	7.2
2016	3.3	—	—	3.3
2017	1.4	—	—	1.4
2018 and thereafter	2.4	—	—	2.4
	$19.9	$4.6	$61.2	$85.7

The following is a summary of activity in our current and non-current deferred revenue for the periods ended December 31, 2013 and 2012, for all revenue arrangements. Annual and other revenue below primarily includes the GIA, PA, BOA and registered representative renewal fees. The additions reflect the fees charged during the period, while the amortization reflects the revenues recognized during the period based on the accounting methodology described above:

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

	Registration	Arbitration	Annual and Other	Total
		(in millions)		
Balance as of January 1, 2012	$21.6	$ 5.5	$ 48.2	$ 75.3
Additions	8.4	9.6	322.0	340.0
Amortization	(9.9)	(10.1)	(305.1)	(325.1)
Balance as of December 31, 2012	$20.1	$ 5.0	$ 65.1	$ 90.2

4. INVESTMENTS

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

Our investment policy strives to preserve principal, in real terms, while seeking to maximize returns within acceptable levels of risk as deemed appropriate by the Board. We execute our investment strategy through separately managed accounts (SMAs) and direct investments. During 2013, our active trading portfolio was managed by an investment manager, who has the authority to buy and sell investments within FINRA-determined, pre-established multiple parameters.

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

	December 31,	
	2013	2012
	(in millions)	
Trading investments	$ 728.3	$ 710.3
Available-for-sale investments: FINRA	10.7	16.0
Available-for-sale investments: Foundation	28.8	24.0
Other investments:		
Equity method investments	799.4	730.0
Cost method investments	0.3	0.3
Total other investments	799.7	730.3
Total	$1,567.5	$1,480.6

Trading Investments

The total mark-to-market holding (loss) gain on trading securities held at December 31, 2013 and 2012 was $(24.7) million and $18.2 million.

Available-for-Sale Investments

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

	Amortized	Gross Unrealized		Fair
	Cost	Gain	Loss	Value
		(in millions)		
As of December 31, 2013:				
Mutual funds	$10.4	$0.3	$(—)	$10.7
As of December 31, 2012:				
Mutual funds	$15.9	$0.1	$(—)	$16.0

4. INVESTMENTS (CONTINUED)

Available-for-Sale Investments (Continued)

For 2013, and 2012, gross investment gains and losses recognized from our investments in mutual and commingled funds, including amounts reclassified from unrealized gains and losses in accumulated other comprehensive income, are as follows:

	2013	2012
	(in millions)	
Gross investment gains recognized	$0.5	$4.0
Gross investment losses recognized	—	—
Amounts reclassified from accumulated other comprehensive income	0.3	2.6

As of December 31, 2013, the Foundation had investments in mutual and commingled funds with a cost of $25.9 million and a fair value of $28.8 million. As of December 31, 2012, the Foundation had investments in mutual and commingled funds with a cost of $22.2 million and a fair value of $24.0 million. The Foundation's investments are available for use by the Foundation to fund future research and investor education projects.

Other-Than-Temporary Declines in Fair Value

In 2013 and 2012, we did not record any impairment charges related to our mutual and commingled funds. As of December 31, 2013 and 2012, we did not identify any events or circumstances that would indicate the value of our mutual and commingled funds should be impaired. Should there be any impairment charges related to other-than-temporary declines in the fair value of available-for-sale investments, they would be reflected in net realized and unrealized investment gains (losses) in the consolidated statements of operations.

Temporary Declines in Fair Value

As of December 31, 2013, the Foundation had one mutual fund with a fair value of $2.9 million, reflecting unrealized losses of $0.1 million less than six months in duration. As of December 31, 2013, FINRA had no available-for-sale investments with aggregate unrealized losses. As of December 31, 2012, FINRA and the Foundation had no available-for-sale investments with aggregate unrealized losses.

Other Investments

As of December 31, 2013, FINRA had investments accounted for under the equity method of $798.3 million in one limited partnership and $1.1 million in hedge funds. These investments are included in other investments in the consolidated balance sheets. Our limited partnership investment represents a variable interest in an investment limited partnership. The purpose of the limited partnership is to maximize risk-adjusted returns over the long term by investing in a highly diversified asset allocation strategy. The nature of the limited partnership includes investments in equity, fixed income and alternative investments. As a limited partner, we do not have the power to direct the activities of the partnership that most significantly impact the partnership's business nor are we the party most closely associated with the partnership. Therefore, we are not the primary beneficiary and accordingly account for our interest under the equity method. Our equity in the earnings of the partnership is based on the partnership's reported net asset value. The partnership's net assets consist primarily of its investments accounted for at fair value; the majority of the partnership's fair value measurements are based on the estimates of the general partner. We recognized equity earnings from this partnership of $73.3 million and $58.6 million in 2013 and 2012. During 2013 and 2012, we did not make any contributions to this partnership. Our maximum exposure to loss related to this partnership is limited to $798.3 million, the carrying amount of our investment, due to the legal structure and design of this partnership. We have no outstanding capital commitments, guarantees or any other liquidity arrangements with this partnership. Our ownership interest in this partnership at December 31, 2013 and 2012, was 63.3 percent and 57.8 percent.

4. INVESTMENTS (CONTINUED)

We had an ownership interest in all equity method investments with total net assets of $9.5 billion and total earnings from operations of $1.1 billion as of and for the period ended December 31, 2013. Our weighted ownership interest in all equity method investees was 8.4 percent at December 31, 2013.

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

As of December 31, 2012, FINRA had investments accounted for under the equity method of $725.0 million in one limited partnership and $5.0 million in hedge funds. We had an ownership interest in all equity method investments with total net assets of $8.9 billion and total earnings from operations of $1.1 billion as of and for the period ended December 31, 2012. Our weighted ownership interest in all equity method investees was 8.2 percent at December 31, 2012.

In 2012, we recognized equity earnings from equity method investments of $59.1 million. We did not recognize any impairment charges on our equity method investments for the year ended December 31, 2012.

5. FAIR VALUE MEASUREMENT

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

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

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

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

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

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

5. FAIR VALUE MEASUREMENT (CONTINUED)

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

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

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, 2012, and indicates the fair value hierarchy of the valuation techniques utilized to determine fair value:

		Fair Value Measurement at December 31, 2012 Measured Using		
Description	Total carrying amount in balance sheet December 31, 2012	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(in millions)		
Assets:				
Trading securities				
Fixed income				
Agency mortgage-backed securities	$222.2	$ —	$222.2	$—
Corporate debt securities				
Industrial	93.3	—	93.3	—
Banking and brokerage	61.5	—	61.5	—
Consumer non-cyclical	60.4	—	60.4	—
Utility	59.0	—	59.0	—
Communication	51.4	—	51.4	—
Other financial institutions	50.2	—	50.2	—
Insurance	45.0	—	45.0	—
Government securities	31.9	—	31.9	—
Asset-backed securities	17.3	—	17.3	—
Mutual funds	18.1	18.1	—	—
Available-for-sale securities				
Mutual funds	33.3	33.3	—	—
Commingled fund	6.7	—	6.7	—
Total Assets	$750.3	$51.4	$698.9	$—

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

For the years ended December 31, 2013 and 2012, 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 securities classified as trading securities are priced using the services of third-party pricing vendors. These vendors utilize evaluated and industry-accepted pricing models that vary by asset class and incorporate market inputs such as available trade, bid and other market information to determine the fair value of the securities. Accordingly, the valuation of these securities is categorized in Level 2 of the fair value hierarchy.

5. FAIR VALUE MEASUREMENT (CONTINUED)

We independently validate the fair value measurement of our trading securities to determine if 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. We believe that we have performed appropriate due diligence procedures to prevent or detect material misstatements.

Mutual Funds

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

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

Equity

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

Commingled Fund

Our commingled fund invests in international equities, excluding emerging markets, and tracks the MSCI World Index. This investment is valued at the quoted net asset value per unit, computed as of the close of business on the balance sheet date. Accordingly, the valuation of these securities is categorized in Level 2 of the fair value hierarchy.

6. INCOME TAXES

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

Unrelated Business Income

Unrelated business income activities are taxed at normal corporate rates to the extent that they have taxable net income. Our unrelated business activities consist primarily of mortgage licensing services provided under our contract with SRR, certain external client exams and, in 2009 and prior, international consulting.

In 2013, management performed an evaluation of the net operating loss (NOL) previously reported under New NASD Holding, Inc. (NAHO), a wholly-owned taxable subsidiary of FINRA. Management determined that FINRA, as the parent organization, should succeed to the NAHO NOLs upon the liquidation of NAHO. At the time of liquidation, the NOL was determined to have a remaining value, net of gains recognized as part of the transaction, of $60.2 million. As a result of this recognition, as of December 31, 2013, and 2012, FINRA had federal unrelated business loss carryforwards of $63.8 million and $7.0 million, respectively, primarily related to NAHO losses and international consulting. The loss carryforwards are scheduled to expire beginning in 2021 through 2028.

6. INCOME TAXES (CONTINUED)

The deferred tax asset related to the transfer of the NAHO NOL to FINRA was measured at $20.5 million. In order to record a deferred tax asset without a valuation allowance, it must be more likely than not that the deferred tax asset will be realized. A component of realization is dependent on generating sufficient taxable income prior to the expiration of the loss carryforwards, as well as evaluation of uncertain tax positions. In 2013, we recorded a valuation allowance equal to the amount of the deferred tax asset resulting from the NAHO liquidation. As of December 31, 2013, and 2012, FINRA had a federal deferred tax asset of $1.6 million ($22.1 million net of a $20.5 million valuation allowance) and $2.7 million, reflecting the benefit of $63.8 million and $7.0 million in loss carryforwards and other minor deferrals. The net change in the valuation allowance in 2013 is $20.5 million. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced. There are no other significant deferred tax assets or liabilities related to unrelated business income. The federal and state 2013 and 2012 income tax provision of $1.3 million and $1.9 million, respectively, primarily represents the net change in deferred tax assets related to unrelated business loss carryforwards during the year. The income tax provision is included in other expense in the consolidated statements of operations in 2013 and 2012.

We did not have any significant unrelated business income taxes payable or refundable in 2013 or 2012.

Uncertain Tax Positions

U.S. GAAP provides a two-step approach for evaluating tax positions. Recognition (step 1) occurs when an entity concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination. In step 2 (measurement), the tax benefit is measured as the largest amount of benefit, determined on a cumulative probability basis, that is more likely than not to be realized upon ultimate settlement. During the years from 2010 to 2013, which represent the years management considers to be open for examination by taxing authorities, management did not identify the existence of any uncertain tax positions. Accordingly, all tax positions are recognized and measured at their full realizable benefit in the consolidated balance sheets and statements of operations. However, in future years, FINRA may recognize an uncertain tax position if total cumulative NOL usage exceeds the amount resulting from pre-NAHO losses.

7. EMPLOYEE BENEFITS

Defined Benefit Pension Plans

As of December 31, 2013 and 2012, we provided two non-contributory defined benefit pension plans for the benefit of our eligible employees, consisting of a qualified ERP and a non-qualified SERP. The benefits are based primarily on years of service and employees' average compensation, as defined, during the highest 60 consecutive months of employment. Both plans are now closed to new participants.

We established an irrevocable rabbi trust to fund our SERP obligation, and included this trust in our consolidated financial statements. As of December 31, 2013 and 2012, $10.7 million and $16.0 million of investments are included in available-for-sale securities in the consolidated balance sheets, representing the amounts contributed by FINRA, plus earned income and market value gains, less distributions to retirees and market value losses.

The investment policy and strategy of the plan assets, as established by the Pension Committee, strive to achieve a rate of return on plan assets that over the long term will, in concert with Company contributions, fund the plan's liabilities to provide for required benefits. The ERP assets are allocated among a diversified portfolio of equity investments, fixed income securities, alternative investments and cash equivalents with both domestic and international strategies. Derivatives are permitted on a limited scale for hedging or creation of market exposures. Direct debt and equity interests are prohibited in any broker-dealer, exchange, contract market, regulatory client, alternative or electronic trading system, and entities that derive a certain threshold of revenue from broker-dealer activities. Asset allocations are reviewed

7. EMPLOYEE BENEFITS (CONTINUED)

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, 2013 and 2012:

	2013 Target Allocation	2013	2012
Equity securities:			
U.S. equity	18.0%	16.4%	17.9%
Non-U.S. equity	16.0%	14.9%	16.3%
Global equity	12.0%	11.5%	12.1%
Debt securities	41.0%	32.8%	40.0%
Alternative investments	11.0%	9.0%	9.3%
Cash equivalents	2.0%	15.4%	4.4%
Total	100.0%	100.0%	100.0%

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

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

The following tables present information about the fair value of the Company's ERP assets at December 31, 2013 and 2012, by asset category, and indicate the fair value hierarchy of the valuation techniques utilized to determine fair value:

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

7. EMPLOYEE BENEFITS (CONTINUED)

Description	Fair Value Measurement at December 31, 2012 Measured Using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
		(in millions)		
Short-term investments in common/collective trusts (a)	$ —	$ 2.9	$ —	$ 2.9
Corporate stocks	10.7	—	—	10.7
Partnership/joint venture interests — real assets (b)	—	—	3.6	3.6
Common/collective trusts — equity (c)	—	101.6	—	101.6
Private pension plan investment entities — fixed income (d)	—	62.0	—	62.0
Mutual funds:				
Equity	30.8	—	—	30.8
Fixed income	86.9	—	—	86.9
Total	128.4	166.5	3.6	298.5
Receivables, net (1)				11.1
Total				$309.6

(1) Represents pending trades at December 31, 2012.

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

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

The investment in the private equity fund is nonredeemable. The term of the private investment is the later of August 11, 2018, or one year after the date on which all of its underlying investments have been disposed, but may be terminated earlier as set forth in the partnership agreement. The commitment to the fund is $5.3 million, of which $3.9 million had been funded as of both December 31, 2013 and 2012.

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

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

As of December 31, 2013, the ERP has one investment whose fair value measurement was categorized within Level 3. The ERP's investment policy, developed by the Pension Committee, limits the amount the ERP may invest in investments that are difficult to value. Valuation of this investment is determined by FINRA, the plan sponsor, on an annual basis at the reporting date. The valuation procedures include, but are not limited to, the review of periodic due diligence materials provided by the third-party investment consultants and investment staff of the plan sponsor, as well as the investment's annual audited financial statement. Unobservable inputs, such as information obtained through periodic due diligence, are typically used to determine whether the net asset value, used as fair value as a practical expedient, would not be representative of fair value as of the reporting date.

7. EMPLOYEE BENEFITS (CONTINUED)

The change in investments measured using Level 3 inputs to determine fair value is as follows:

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)
	Partnership/ joint venture interests
	(in millions)
Beginning balance at December 31, 2011	$ 16.8
Actual return on plan assets:	
Relating to assets still held at the reporting date	0.2
Relating to assets sold during the period	1.6
Purchases	3.8
Sales	(18.8)
Balance at December 31, 2012	3.6
Actual return on plan assets:	
Relating to assets still held at the reporting date	0.2
Relating to assets sold during the period	—
Purchases	—
Sales	(0.3)
Ending balance at December 31, 2013	$ 3.5

For the years ended December 31, 2013 and 2012, there were no transfers between Level 1, Level 2 or Level 3 of the fair value hierarchy.

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

Postretirement and Retiree Medical Benefit Plans

As of December 31, 2013 and 2012, the Company provided a non-contributory postretirement life insurance benefit plan for the benefit of eligible employees. The postretirement benefit plan provides a specified life insurance benefit to eligible retired employees. The postretirement benefit plan is closed with respect to new participants.

As of December 31, 2013 and 2012, the Company provided an employer-funded defined contribution RMA Plan to assist our retirees with the cost of health care expenses during retirement. Under the RMA Plan, Retiree Medical Accounts are created for eligible employees and retirees and fixed annual credits are applied to those accounts for each year of FINRA service beginning at age 40. Active employees may also accrue credits for a portion of their unused vacation and personal leave. The credits can be accessed only in retirement and may be used only toward paying a portion of monthly premiums under FINRA-sponsored retiree health plans.

Voluntary Retirement Program

On October 7, 2013, FINRA announced the implementation of a Voluntary Retirement Program (VRP). The VRP was designed for those employees who were retirement-eligible (minimum age of 55) and when combined with years of

7. EMPLOYEE BENEFITS (CONTINUED)

service, reached a minimum combined age/years of service of 65 as of January 31, 2014. The VRP included provisions for benefits in the form of severance payments; medical, dental and vision benefits; outplacement services; eligibility and payout for various bonus programs; and additional service credits for the FINRA ERP or contributions to the defined contribution component of the savings plan, as applicable.

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

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

Plan Disclosures

The following tables disclose "Pension Benefits," which include the ERP and SERP described above, and "Other Benefits," which include the postretirement and RMA plans described above. The reconciliation of the projected benefit obligation, the change in the fair value of plan assets for the periods ended December 31, 2013 and 2012, and the accumulated benefit obligation at December 31, 2013 and 2012, are as follows:

	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
	(in millions)			
Change in benefit obligation				
Benefit obligation at beginning of period	$ 557.5	$ 450.7	$ 53.1	$ 40.9
Service cost	42.8	38.3	4.1	3.1
Interest cost	21.6	19.8	2.1	1.9
Actuarial (gains) losses	(132.4)	76.6	(6.8)	7.9
Benefits paid	(16.8)	(27.9)	(1.1)	(0.7)
Special termination benefits	12.7	—	—	—
Benefit obligation at end of period	$ 485.4	$ 557.5	$ 51.4	$ 53.1
Change in plan assets				
Fair value of plan assets at beginning of period	$ 309.6	$ 246.8	$ —	$ —
Actual return on plan assets	33.2	31.6	—	—
Company contributions	64.4	59.1	1.1	0.7
Benefits paid	(16.8)	(27.9)	(1.1)	(0.7)
Fair value of plan assets at end of period	$ 390.4	$ 309.6	$ —	$ —
Underfunded status of the plan	$ (95.0)	$(247.9)	$(51.4)	$(53.1)
Accumulated benefit obligation (ABO)	$ 366.4	$ 386.8		

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

	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
	(in millions)			
Current	$ 7.4	$ 9.8	$ 2.4	$ 1.3
Noncurrent	87.6	238.1	49.0	51.8
Net amount at December 31	$95.0	$247.9	$51.4	$53.1

FINRA 2013 Notes to Consolidated Financial Statements

7. EMPLOYEE BENEFITS (CONTINUED)

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

The Company does not expect any plan assets to be returned to it during the year ending December 31, 2014.

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

	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
	(in millions)			
Unrecognized net actuarial loss	$(61.3)	$(221.0)	$ (4.2)	$(11.3)
Unrecognized prior service cost	(1.1)	(1.3)	(10.3)	(11.7)
Unrecognized net transition obligation	—	—	—	(0.1)
Net amount at December 31	$(62.4)	$(222.3)	$(14.5)	$(23.1)

The following amounts were included in other comprehensive income (loss) during 2013:

	Incurred but Not Recognized	Reclassification Adjustment for Prior Period Amounts Recognized
	(in millions)	
Actuarial gain (loss)		
Pension benefits	$146.4	$13.3
Other benefits	6.8	0.3
	153.2	13.6
Prior service cost		
Pension benefits	—	0.2
Other benefits	—	1.4
	—	1.6
Net transition obligation		
Pension benefits	—	—
Other benefits	—	0.1
	—	0.1
	$153.2	$15.3

Estimated amounts to be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost during 2014 based on December 31, 2013, plan measurements are as follows:

	Pension Benefits	Other Benefits
	(in millions)	
Unrecognized prior service costs	$0.2	$1.4
Unrecognized actuarial losses	1.2	—

7. EMPLOYEE BENEFITS (CONTINUED)

The weighted-average assumptions used to determine benefit obligations for the years ended December 31, 2013 and 2012, are as follows:

	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
Discount rate	5.00%	4.00%	4.69%	3.55%
Rate of compensation increase	4.80%	4.78%	—	—

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

	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
Discount rate	4.00%	4.50%	3.55%	4.35%
Rate of compensation increase	4.78%	4.75%	—	—
Expected return on plan assets	6.75%	7.00%	—	—

The assumptions above are used to develop the benefit obligations at year end and to develop the net periodic benefit cost for the subsequent year. Therefore, the assumptions used to determine benefit obligations were established at each year end while the assumptions used to determine net periodic benefit cost for each year are established at the end of each previous year. The expected return on plan assets that will be used in the determination of 2014 net periodic benefit cost is 6.75 percent.

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

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

	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
	(in millions)			
Service cost	$ 42.8	$ 38.3	$4.1	$3.1
Interest cost	21.6	19.8	2.1	1.9
Expected return on plan assets	(19.8)	(16.4)	—	—
Recognized net actuarial losses	13.3	10.0	0.3	—
Prior service cost recognized	0.2	0.2	1.4	1.4
Net transition obligation recognized	—	—	0.1	—
Settlement expense	0.6	2.9	—	—
Special termination benefits	12.7	—	—	—
	$ 71.4	$ 54.8	$8.0	$6.4

The assumed health care cost trend rate to be used for the next year to measure the expected cost of other benefits is 8.5 percent, with a gradual decline to 6 percent by the year 2018. 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.

7. EMPLOYEE BENEFITS (CONTINUED)

We measure our plans as of the end of each fiscal year. The ERP's funding policy is to contribute enough to fund at least 100 percent of the ERP's funding target liability as set forth by the Internal Revenue Service. In 2014, we expect to contribute $24.7 million to the ERP. We do not expect to make any contributions to the SERP in 2014. In addition, we expect to make the following benefit payments to participants over the next 10 years:

	Pension Benefits	Other Benefits
	(in millions)	
Year ending December 31,		
2014	$ 78.7	$ 4.0
2015	19.8	4.0
2016	18.5	4.6
2017	21.1	5.2
2018	28.9	5.9
2019 through 2023	177.2	43.6
Total	$344.2	$67.3

All Other Benefit Plans

FINRA also maintains a voluntary contributory savings plan for eligible employees. Employees are immediately eligible to make elective contributions to the plan up to specified plan limits. Employees are also eligible to receive from FINRA a corresponding dollar-for-dollar matching contribution on any elective contribution made by the participant to the savings plan, up to a maximum of 4 percent of base compensation, with an additional discretionary match. The plan also has a retiree medical match equal to 25 cents on the dollar for elective contributions in excess of 6 percent of compensation, up to an annual maximum match of $1,000. Savings plan expense for 2013 and 2012 was $22.8 million and $18.9 million, respectively, and is included within compensation and benefits expense in the consolidated statements of operations. The savings plan expense includes a discretionary 2 percent match totaling $6.6 million for 2013, and a discretionary 1 percent match totaling $3.2 million for 2012, which is included within compensation and benefits expense in the consolidated statements of operations. The retiree medical match for 2013 and 2012 totaled $1.9 million and $1.7 million, respectively, and is included within compensation and benefits expense in the consolidated statements of operations.

Effective January 1, 2011, FINRA adopted a new defined contribution component to the savings plan and participation in the ERP for all new hires ceased. During 2011, current ERP participants were given a limited option to participate in this new contribution component instead of the ERP. For ERP participants electing the new retirement contribution, their accrued benefit in the ERP was frozen, but future service with FINRA still allows for growth into vesting and eligibility for early retirement and/or early payment subsidies. The Company's contributions for this new component are based on the participant's age plus years of service, and vesting is on a graduated scale for up to six years. The investment options are the same as the current options in the savings plan. Expenses related to the new defined contribution component to the savings plan for 2013 and 2012 were $4.7 million and $3.5 million, respectively, and are included within compensation and benefits expense in the consolidated statements of operations.

FINRA maintains a deferred compensation plan for officers under the provisions of Section 457(b) of the IRC. Eligible employees may contribute to the plan and, at its discretion, FINRA may make additional contributions to the plan. FINRA placed the assets of this plan into an irrevocable rabbi trust that the Company consolidates. As of December 31, 2013, $12.9 million of investments and $12.9 million of amounts due to plan participants are included in trading investments and accrued personnel and benefit costs, respectively, in the consolidated balance sheet, representing participant contributions to this plan and accrued earnings. As of December 31, 2012, $9.8 million of investments and $9.8 million of amounts due to plan participants are included in trading investments and accrued personnel and benefit costs, respectively, in the consolidated balance sheet, representing participant contributions to this plan and accrued earnings. As of December 31, 2013 and 2012, FINRA made no additional contributions to this plan.

7. EMPLOYEE BENEFITS (CONTINUED)

FINRA maintains a defined contribution SERP for the Company's senior officers. FINRA makes annual contributions based on salary and a portion of incentive compensation. Contributions and earnings vest upon the earlier of 1) the end of each third year of participation following such contribution; 2) attainment of age 62; 3) death; or 4) a disabled participant's termination of employment. As of December 31, 2013, $10.5 million of investments and $10.5 million of amounts due to plan participants are included in trading investments and accrued personnel and benefit costs, respectively, in the consolidated balance sheet, representing FINRA's contributions to this plan plus accrued earnings. As of December 31, 2012, $8.3 million of investments and $8.3 million of amounts due to plan participants are included in trading investments and accrued personnel and benefit costs, respectively, in the consolidated balance sheet, representing FINRA's contributions to this plan plus accrued earnings.

8. LEASES

FINRA leases certain office space and equipment in connection with its operations. The majority of these leases contain escalation clauses based on increases in rent, property taxes and building operating costs. Certain of these leases also contain renewal options. Rent expense for operating leases was $23.7 million and $28.1 million for the years ended December 31, 2013 and 2012, respectively, and is included in occupancy expense in the consolidated statements of operations.

Future minimum lease payments under non-cancelable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 2013:

Year ending December 31,	*(in millions)*
2014	$ 28.0
2015	26.3
2016	25.6
2017	25.4
2018	25.1
Remaining years	62.1
Total minimum lease payments	$ 192.5

9. COMMITMENTS AND CONTINGENCIES

General Litigation

The Company may be subject to claims arising out of the conduct of its business. Currently, there are certain legal proceedings pending against us. Management is not aware of any unasserted claims or assessments that would have a material adverse effect on our financial position and the results of operations. While the outcome of any pending or future litigation cannot be predicted, management does not believe that any such matter will have a material adverse effect on our business or financial position. As of December 31, 2013, there were no material estimated losses requiring disclosure related to pending legal proceedings, because we believe the loss from these matters is not probable. We believe any litigation contingency involves a chance of loss that is either remote or reasonably possible. Such pending legal matters involve unspecified claim amounts, in which the respective plaintiffs seek an indeterminate amount of damages. The outcome of such matters is always uncertain, and unforeseen results can occur. It is possible that such outcomes could require us to pay damages or make other expenditures or establish accruals in amounts that we could not estimate as of December 31, 2013.

10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 19, 2014, the date these financial statements became available to be issued.

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