Financial Industry Regulatory Authority

FINRA 2012 Year in Review and Annual Financial Report

1 Letter from the Chairman and Chief Executive Officer

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FROM THE CHAIRMAN AND CEO

In 2012, we enhanced our regulatory programs to more fully protect investors and further assure the public that America's financial markets are fairly regulated. In today's rapidly evolving markets, it's more important than ever that we remain vigilant in the pursuit of our mission and respond quickly when problems arise.

As discussed in more detail below, in 2012, we achieved significant milestones in our efforts to re-engineer our examination program to be more efficient and risk-based, and enhance our surveillance of the securities markets to greater ensure market integrity. We also increased the effectiveness and speed with which we respond to potentially fraudulent conduct, enhanced transparency for investors, and began the process of implementing a more structured analysis of the costs and benefits of new and existing rules.

These efforts, which are described in more detail below, underscore our commitment to spotting and responding to problems early—vigilance that is critical to protecting investors through effective regulation of the securities industry and the markets.

Assessing Risk Early

Our risk-based exam program, which we have been building over the past few years, is a cornerstone of our efforts to intervene early and prevent harm to investors. Through the risk-based approach, we have strengthened our ability to identify high-risk firms, brokers, activities and products, thereby enabling us to focus our resources on those areas where we believe the risk to investors is greatest.

During 2012, we continued expanding on the risk-based approach by introducing new technology to support and streamline the process of examining firms. In October, we successfully launched the first in a series of pilots of FINRA's new risk-based exam platform. Instead of using a standard set of exam questions and prescriptive review steps, staff involved in the pilot arrives at an exam armed with more firm-specific data and have greater flexibility to quickly make decisions regarding red flags and other areas of heightened focus. The pilot has given us valuable insight, and as a next step, we are extending the pilot to include firms that have more complex business models and products. We expect to begin using the platform for all new exams by the end of this year.

Richard G. Ketchum
Chairman and
Chief Executive Officer

The risk control assessment survey—which I described in my letter last year—is one example of the way in which we are collecting data early. Since we began that effort, firms have told us that their sales practice cycle examinations were more streamlined and that examiners have shown a better understanding of the firm's business. We also adjusted the survey based on the feedback we received, and, in May of this year, sent it to firms using a more user-friendly approach.

We also sought and received SEC approval to gather additional financial information from firms through the Supplemental Statement of Income. For example, we now gather additional income information from firms that derive more than 10 percent of their total revenues from unregistered offerings, and in July of this year, we will begin collecting/requiring additional data on derivatives and other off-balance sheet items from carrying or clearing firms. We combine this type of data with other information to help us assess risk and determine how often we should visit firms.

During 2012, we continued expanding on the risk-based approach by introducing new technology to support and streamline the process of examining firms.

In addition to initiating 1,846 routine examinations and more than 800 branch office examinations, last year we conducted 5,100 cause examinations in response to events such as customer complaints, terminations for cause and regulatory tips.

From a product perspective, we devoted significant resources to focusing on the sales of products that can expose investors to increased risk, such as complex and less liquid products. Last year, for example, we sanctioned David Lerner Associates $14 million for unfair practices in the sale of a non-traded real estate investment trust and for charging excessive markups on municipal bonds and collateralized mortgage obligations. When we examine firms, we focus extensively on the suitability of the products recommended to investors and whether sufficient disclosures of the risks entailed in the product are made.

In addition to complex products, we also paid particular attention to the disclosure of conflicts to investors. Conflicts issues have been a common thread in nearly all the industrywide regulatory failures over the last 20 years. In July, we initiated a review of how firms identify and manage conflicts of interest to better understand industry practices, and to identify both good policies and potential problem areas. We also asked firms to complete a questionnaire on compensation practices. In January of this year, we proposed a rule to ensure that investors know about the potential conflicts involving their broker's recruitment package when they are solicited to move an account. We are reviewing comments we received on the proposal and will soon decide how to proceed.

We also devoted significant resources to monitoring the financial condition of certain firms facing problems that threatened their viability. For example, last year FINRA and the SEC worked with the clearing firm Penson as it faced bankruptcy to facilitate an acquisition, saving 1.6 million customers from the impact of a SIPC liquidation.

Expanding Market Regulation

Effective market regulation is a cornerstone of our mandate to maintain market integrity. Throughout the year, FINRA continued to build on its efforts to detect improper conduct at an earlier stage, by implementing comprehensive cross-market surveillance patterns for the markets we regulate. These patterns address more than 50 threat scenarios and canvas approximately 80 percent of the listed equities market. In addition, we introduced a suite of surveillance patterns to further enhance oversight of trading in non-exchange-listed OTC equities, which will allow FINRA to better review for potential manipulative trading activity, such as frontrunning and marking the close.

Last July, the SEC approved a rule requiring the national exchanges and FINRA to build and implement a consolidated audit trail (CAT) through the development of a National Market System plan. FINRA is working with the national exchanges to develop and implement the CAT. In February of this year, the SROs published a request for proposals to create, implement and maintain the CAT. FINRA is among 27 organizations that have indicated they intend to submit a bid. The implementation of CAT, a system that will collect and identify every order, cancellation, modification and trade execution for all exchange-listed equities and options across all U.S. markets, will allow FINRA to conduct broader, more effective cross-market surveillance and be better positioned to detect improper conduct at an earlier stage.

> Effective market regulation is a cornerstone of our mandate to maintain market integrity.

We also are closely monitoring changing market dynamics—including the continued expansion of high-frequency trading, the growth of trading away from exchanges and the growing use of "dark pools." During 2012, the U.S. capital markets experienced notable technological and trading disruptions, including the Knight Capital technology glitch in August. In the wake of the incident, FINRA worked with Knight Capital to facilitate the sale of its error positions and the infusion of additional capital.

In light of market disruptions we witnessed in 2012, we are reviewing whether firms have adequate testing and controls related to high-frequency trading and other algorithmic trading strategies and systems. In addition, we will look at whether broker-dealers have firm-wide disconnect or "kill" switches, as well as procedures for responding to widespread system malfunctions. And we are reviewing dark pools—that is, alternative trading systems that don't publicly quote—to see if they are complying with regulatory requirements and acting consistently with their representations to clients.

Fraud Detection and Enforcement

We are committed to aggressively detecting and stopping fraud. One of FINRA's most significant regulatory achievements for 2012 was the range of civil and criminal actions stemming from FINRA referrals of potential fraudulent conduct. FINRA's Office of Fraud Detection and Market Intelligence (OFDMI) referred 692 matters involving conduct indicative of fraud to the SEC and other federal or state law enforcement agencies, including 347 insider trading referrals and 260 fraud referrals. Our referrals and cooperative regulatory efforts over the years have contributed to dozens of SEC and other law enforcement actions, including charges of insider trading and other fraudulent conduct. Last July, for example, within hours after the announcement of an acquisition of Canada-based Nexen Inc. by China-based CNOOC Ltd., FINRA alerted the SEC to suspicious trading by foreign accounts, which generated more than $13 million in illicit profits. The SEC quickly moved to freeze the assets.

During the year, FINRA brought a number of highly significant disciplinary actions, including cases involving complex products such as exchange-traded funds, structured products and non-traded REITs. FINRA also brought several cases involving a wide variety of misconduct at direct market access firms, as well as cases involving research analyst conflicts, inadequate disclosure of performance data and failing to supervise mortgage-backed securities pricing, excessive markups and fees, arbitration abuse and failure to retain email.

We were similarly proactive in situations where we detected fraudulent conduct. For example, we obtained a temporary cease-and-desist order to prevent further fraudulent sales activities by Michigan-based WR Rice Financial Services and its owner, as well as the conversion of investors' funds or assets. We responded quickly by seeking and obtaining the temporary order, because we believed ongoing customer harm and depletion of customer assets would likely continue before a formal disciplinary proceeding could be completed.

In another case, FINRA completed an investigation and expelled Hudson Valley Capital Management and barred its chief executive officer for conducting a fraudulent scheme within 90 days after receiving a complaint. The firm defrauded its clearing firm and customers by using their funds and securities to cover losses caused by manipulative day trading.

Overall in 2012, FINRA brought 1,541 disciplinary actions against associated persons and firms, levied fines totaling more than $69 million and ordered restitution of $34 million to harmed investors. In addition, FINRA expelled 30 firms from the securities industry, barred 294 individuals and suspended 549 brokers from association with FINRA-regulated firms.

Enhancing Transparency for Investors

In 2012, we marked the 10-year anniversary of our Trade Reporting and Compliance Engine® (TRACE®) system, which we have enhanced through the years to enable investors to see transaction information on a wide range of fixed income products. During the 10-year period since TRACE was implemented, an average of 500 dealers reported at least one transaction per day, and par value traded increased from $19 billion a day in 2005 to more than $23 billion in 2012.

In November 2012, FINRA began disseminating price and other transaction-level information on agency pass-through mortgage-backed securities traded to be announced (TBA transactions), which represent more than 80 percent of asset-backed security (ABS) transaction volume. This July, we will begin disseminating mortgage-backed securities (MBS) traded in specified pool transactions and Small Business Administration-backed ABS. FINRA continues to evaluate other segments of the market that may benefit from increased transparency. In April of this year, our Board approved a proposal to publicly disseminate 144A transactions in TRACE-eligible securities for those asset types currently subject to dissemination. Making this information publicly available will help market participants determine the quality of their executions and help firms comply with their regulatory obligations. We will seek SEC approval of the proposal.

Another central area where we worked to improve the range of information available to investors is BrokerCheck®. Last October, we added a search engine optimization feature to ensure BrokerCheck is listed as a search result when investors look up investment professionals. We will continue to look for ways to increase the use of BrokerCheck to make it easier for investors to find information about securities firms and professionals with whom they want to do business.

Rulemaking

As mentioned earlier, we began the process of implementing a more structured analysis of the costs and benefits of new and existing rules. In April of this year, we hired a chief economist who will work closely with the Office of General Counsel and other departments in developing new rules and analyzing the costs and benefits of existing and potential rulemakings. The chief economist will also be responsible for gathering and analyzing data on securities firms and markets.

We also took extra steps to answer questions raised by firms and the SEC regarding FINRA's new suitability rule, which went into effect in July 2012. Last year, we issued two Regulatory Notices and hosted a webinar to provide additional guidance on the suitability rule and met with SEC staff, FINRA district and advisory committees and industry associations to better understand their issues and questions. In response to firm's concerns about particular parts of the rule, we discussed these concerns extensively with firms and issued guidance in the form of frequently asked questions addressing their issues.

Investor Protection Initiatives

FINRA is committed to ensuring that investors are protected in a constantly changing market. The Jumpstart Our Business Startups Act (JOBS Act), which President Obama signed into law in April 2012, amends various provisions of the federal securities laws. Intermediaries performing crowdfunding on behalf of issuers must register with the SEC as a "funding portal" or broker, and also with an applicable self-regulatory organization.

FINRA is committed to ensuring that investors are protected in a constantly changing market.

We are reviewing our rules as required in the JOBS Act, to be prepared to adopt a focused rule set for funding portals after the SEC adopts its funding portal rules. In January of this year, FINRA issued an interim form for prospective funding portals to voluntarily submit information regarding their business. We will use the information to help us develop rules specific to crowdfunding portals.

During 2012, the FINRA Investor Education Foundation followed up its landmark 2009 National Financial Capability Study by conducting a second wave of the state-by-state and military components of the study. We released the state-by-state and national findings in May of this year and will release the military data in the second half of 2013. Preliminary analysis reveals some interesting changes in key measures of financial capability over the three-year period since the baseline survey. But the latest results also reinforce 2009 findings that financial capability varies greatly by socio-economic status and other demographics, and that many Americans struggle to make ends meet, plan ahead and make savvy financial decisions.

Also in 2012, the Foundation launched and expanded important partnerships to help us reach, educate and protect individual investors. For example, we trained Better Business Bureaus across the country to deliver the Foundation's fraud prevention messages and materials. In addition, we partnered with the National White Collar Crime Center to create a professional development course for law enforcement on detecting and preventing investment fraud, while continuing to support the Financial Fraud Research Center at the Stanford Center on Longevity. Collaborating with the American Library Association and United Way, the Foundation supported and evaluated sustainable models to integrate financial education into the daily experiences of high-need audiences—at the workplace, in public schools, in senior centers and in other settings where communities gather. And our efforts on behalf of military service members and their families continued through the provision of educational forums delivered on installations in the United States and internationally, access to a credit score and analysis tool, counseling provided by trained military spouses, and participation in the Military Saves campaign, among other initiatives.

Financials

Financially, 2012 was a solid year. Our improved results reflect the fee increases we implemented during the year as well as our efforts to control costs. Looking ahead, our modernized fee structure is expected to yield nearly $60 million in annual incremental revenues and better position FINRA financially for the next few years.

In 2012, we achieved cost savings of about $25 million through cost saving initiatives we identified in 2011 as part of FINRA's revenue performance initiative (RPI). This year, we expect to achieve an additional $12 to $15 million in savings. In total, we expect to realize savings of about $60 million by the end of 2013 from the RPI program, and we will continue to look for ways to control costs.

As mentioned on page 3, in 2012 FINRA levied nearly $69 million in fines against firms and brokers. Although fines are classified as revenues in our financial statements, they are not used to fund recurring operating expenses, but rather are used to support capital expenditures and regulatory projects from an operating policy and procedural perspective. Additionally, all capital expenditures and regulatory projects are reported to our Board of Governors. In 2012, these expenditures and projects included, but were not limited to, our continued NYSE integration efforts, redesign of our risk-based exam program, market regulation surveillance and data processing enhancements, companywide technology upgrades and our multi-product platform initiative. These expenditures and initiatives are crucial to pursuing our mission of investor protection and market integrity in today's rapidly evolving markets.

Looking Ahead

Being responsive and flexible in the face of change is central to FINRA's ability to be an effective regulator. We will continue to be vigilant and responsive as we work to protect investors and keep markets fair.

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, 2012, FINRA oversaw nearly 4,300 brokerage firms, approximately 161,000 branch offices and almost 630,000 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) and other exchanges. We also regulate the over-the-counter (OTC) securities markets, operate transparency facilities and facilitate trading activities through market based information distribution. 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 our Trade Reporting and Compliance Engine® (TRACE®), which enables investors to see transaction information on a wide range of fixed income products, as well as 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 funds 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. In 2012, FINRA initiated 1,846 routine examinations and more than 800 branch office examinations. We also initiated 5,100 cause examinations in response to events such as customer complaints, terminations for cause and regulatory tips.

In addition to regulating both firms and individuals in the securities industry, FINRA monitors 80 percent of all trading in U.S. listed equities markets — or nearly 6 billion shares traded each day. Our technology enables us to look across equity markets to detect potential abuses.

We also work behind the scenes to detect and fight fraud. As noted in FINRA Chairman and CEO Rick Ketchum's letter, one of our most significant regulatory achievements in 2012 was the range of civil and criminal actions stemming from FINRA referrals of potential fraudulent conduct. Last year, we referred 692 fraud and insider trading cases to the Securities and Exchange Commission (SEC) and other federal agencies. 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 2012, we brought 1,541 disciplinary actions (an increase of 53 from 2011) against registered individuals and firms, levied fines totaling more than $69 million and ordered restitution of $34 million to harmed investors. While fine revenues were down 3.9 percent from 2011, the number of monetary sanctions increased year over year, and importantly, the restitution FINRA ordered to harmed customers in 2012 was a record amount.

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 2012 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, 2012, 2011 and 2010, 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 6, "Fair Value Measurement," and Note 8, "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, 2012.

	Years Ended December 31,	
	2012	2011
	(in millions)	
Net revenues	$ 878.6	$ 880.1
Total expenses	(992.7)	(994.9)
Interest and dividend income	24.9	25.0
Operating loss	(89.2)	(89.8)
Net realized and unrealized investment gains	42.5	19.0
Equity earnings (losses) from other investments	59.1	(12.5)
Other	(1.9)	(0.7)
Net income (loss)	$ 10.5	$ (84.0)

In a year where revenues remained relatively flat year over year, we were able to keep expenses relatively flat as well, with portfolio returns offsetting operating losses and providing net income of $10.5 million for 2012.

Management Report on Financial Operations (continued)

BALANCE SHEET

Our focus is to ensure a strong balance sheet, so that we are financially positioned to respond to the regulatory needs of investors in today's rapidly evolving markets. To that effect, our balance sheet remains strong, with net assets of approximately $1.2 billion and $1.3 billion as of December 31, 2012 and 2011, respectively. FINRA's working capital was $667.2 million as of December 31, 2012, and $691.2 million as of December 31, 2011. Our working capital and cash ratios were 2.11 and 1.85 as of December 31, 2012, compared to 2.18 and 1.95 as of December 31, 2011.

Assets

FINRA had total assets of approximately $2.2 billion as of December 31, 2012 and 2011, and total cash and investments of approximately $1.8 billion as of December 31, 2012 and 2011. FINRA's total assets increased $15.2 million or 0.7 percent in 2012 primarily due to increases in cash and investments (as defined below) and receivables, offset by decreases in property and equipment and other assets.

Cash and investments: FINRA's investment portfolio was created to support FINRA in fulfilling its mission 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, 84 percent as of December 31, 2012. 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 2012, cash and investments increased $28.6 million driven primarily by investment portfolio returns of 7.1 percent, offset by our pension plan contribution.

As of December 31, 2012, our portfolio market exposures were as follows: bonds and cash, 63 percent; equities, 20 percent; alternatives, 13 percent; and real assets, 4 percent.

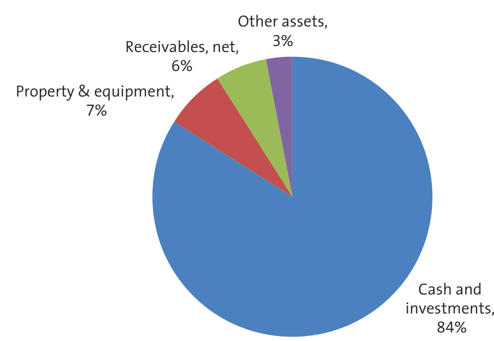
Our investment portfolio is highly liquid, with 54 percent available in 30 days or less as of December 31, 2012.

Property and equipment: Property and equipment decreased as a result of depreciation, offset by acquisitions related to our New York and Maryland data center facilities.

Receivables: Receivables increased primarily as a result of an increase in our SEC fee receivable. This increase was driven by an approximate 17 percent rate increase from December 31, 2011 to December 31, 2012.

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, 2012



Assets as of December 31, 2012 and 2011:

	2012	2011
	(in millions)	
Cash and investments	$1,846.6	$1,818.0
Property and equipment	150.2	169.7
Receivables, net	121.0	96.1
Other assets	70.7	89.5
Total assets	$2,188.5	$2,173.3

Liabilities

FINRA's total liabilities increased $60.8 million or 6.9 percent primarily due to increases in pension and other postretirement costs, accrued personnel costs, the SEC fee payable and deferred liabilities, offset by a decrease in investments payable.

Pension and other postretirement: Pension and other postretirement costs represent the largest portion of FINRA's total liabilities, 32 percent as of December 31, 2012.

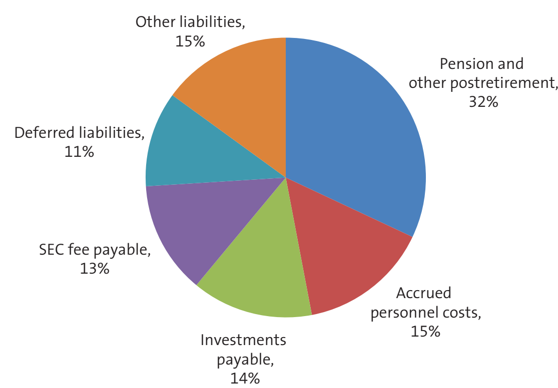
In calculating the liability and expense related to our pension and other postretirement plans, we use several statistical and other factors, which attempt to anticipate future events. Key factors include assumptions about the expected rates of return on plan assets and the discount rate as determined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

The decrease in our pension plan discount rate from 4.50 percent as of December 31, 2011, to 4.00 percent as of December 31, 2012, was the primary reason for the $56.2 million increase in pension and other postretirement liabilities (current and long-term), and the corresponding decrease in equity related to our pension and other postretirement plans.

The actuarial assumptions that we use in determining pension and other postretirement 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, 2012, would cause the projected benefit obligation for pension benefits to decrease (increase) by approximately $16.3 million. A 25 basis-point increase (decrease) in the discount rate assumption as of December 31, 2011, would have caused the 2012 pension benefits expense to decrease (increase) by approximately $1.7 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 $45.0 million to the pension plan in 2012.

LIABILITIES BY TYPE AS OF DECEMBER 31, 2012



Liabilities as of December 31, 2012 and 2011:

	2012	2011
	(in millions)	
Accrued personnel costs	$142.8	$130.1
Investments payable	132.0	162.8
SEC fee payable	124.2	110.9
Deferred liabilities	80.4	61.8
Pension and other postretirement	11.1	10.8
Other current	109.1	110.5
Total current liabilities	599.6	586.9
Pension and other postretirement	289.9	234.0
Deferred liabilities	26.9	39.2
Other long-term	30.8	26.3
Total liabilities	$947.2	$886.4

Management Report on Financial Operations (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, 2012, approximately 26 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.

As of December 31, 2012, our pension plan portfolio market exposures were as follows: equities, 46 percent; bonds and cash, 45 percent; and alternatives, 9 percent.

Accrued personnel costs: Accrued personnel costs increased primarily due to an increase in headcount, driven by the in-sourcing of technology personnel as a result of the December 31, 2012, expiration of our outsourced technology services contract with Hewlett Packard (HP) Enterprise Services. FINRA had approximately 3,400 and 3,300 employees as of December 31, 2012 and 2011, respectively.

SEC fee payable: Our SEC fee payable increased due to a rate increase in July 2012 from $19.20 per million dollars in transactions for the months outstanding in 2011 to $22.40 per million dollars in transactions for the months outstanding in 2012.

Deferred liabilities: Deferred liabilities increased due to increases in fees related to registered representative renewals and branch offices. Registration and renewal fees increased to help cover the costs of system enhancements and the increased number of registration categories available to individuals. Branch office fees increased to cover the rising costs related to the administration of the branch office registration and examination program.

Management Report on Financial Operations (continued)

STATEMENT OF OPERATIONS

Revenues

Overall, revenues for 2012 remained relatively flat compared to 2011, as an increase in user revenue was offset by decreases in dispute resolution and fines revenues.

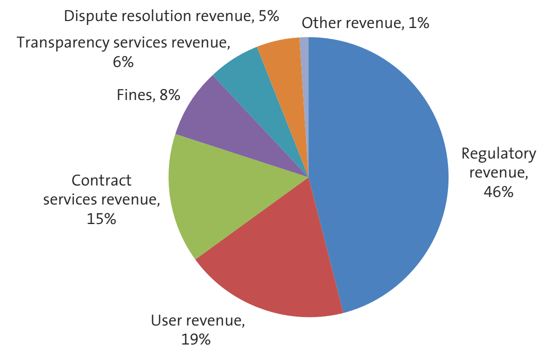
Regulatory revenue: Regulatory revenue, including the Trading Activity Fee (TAF), Gross Income Assessment (GIA), Personnel Assessment and Branch Office Assessment, is FINRA's primary source of revenue, representing 46 percent of revenues in 2012. These revenues are used to fund FINRA's regulatory activities, including examinations; financial monitoring; and FINRA's policymaking, rulemaking and enforcement activities. Regulatory revenue remained relatively flat year over year. While TAF rate increases contributed to revenue increases year over year despite declining volumes, those increases were offset by the continued decline in GIA revenue due to lower industry revenues.

User revenue: The increase in user revenue was driven by a rate increase related to our corporate financing fees, due to the changing nature and complexity of the offerings filed. Many filings seek expedited review or same day clearance, and there has been a growth in filings raising complex issues, such as unlisted real estate investment trusts, business development companies and other direct participation programs.

Dispute resolution revenue: The decrease in dispute resolution revenue for 2012 was driven by a decrease in the number of new cases filed, from 4,729 in 2011 to 4,299 in 2012.

Fines: While the number of disciplinary actions increased from 733 in 2011 to 745 in 2012, the average fine decreased from approximately $98,100 in 2011 to approximately $92,700 in 2012. 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.

REVENUES BY TYPE — 2012



Components of total revenue in 2012 and 2011:

	2012	2011
	(in millions)	
Regulatory revenue	$406.9	$407.3
User revenue	164.9	157.0
Contract services revenue	128.2	129.0
Transparency services revenue	56.9	56.0
Dispute resolution revenue	41.7	48.0
Other revenue	10.9	10.9
Total operating revenue	809.5	808.2
Fines	69.1	71.9
Total revenue	$878.6	$880.1

Expenses

Expenses for 2012 remained relatively flat compared to 2011. On average, compensation and benefits expense annually increases between three and four percent as a result of increases related to employee merit, promotion, equity and incentive compensation. In 2012, these increases were offset by cost savings across technology and facilities and other back-office functions, which resulted in expenses remaining relatively flat year over year.

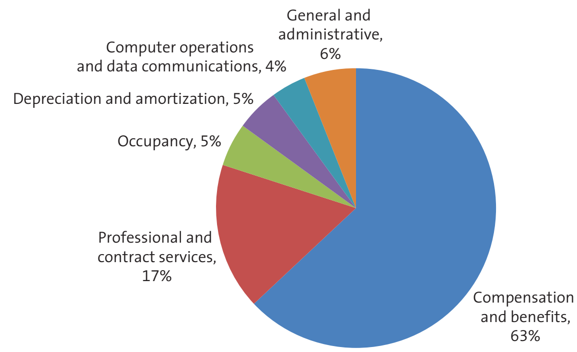
Compensation and benefits: FINRA is largely a service organization. Our expenses are driven by employee-related costs, as we seek to attract, develop and retain a diverse group of talented staff, particularly in the highly specialized areas of regulation and technology, to enable FINRA to carry out its regulatory mandate in today's ever-changing markets. Employee compensation and benefits are FINRA's largest expense, representing 63 percent of total expenses in 2012.

The increase in compensation and benefits expense was primarily driven by the in-sourcing of technology personnel as a result of the wind down of our outsourced technology services contract with HP in 2012. The balance of the increase is attributed to increased pension and other postretirement expense driven primarily by declining discount rates and increased service and interest costs. The cost savings from the in-sourcing of technology services and staff, as further discussed below, will assist in covering the cost of the increase in headcount.

Professional and contract services: The decrease in professional and contract services was driven by reduced costs in technology maintenance, production and desktop support services, as these services were insourced due to the expiration of our technology services contract, as noted above, in addition to decreased application development and consulting expenses.

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

EXPENSES BY TYPE — 2012



Components of total expenses in 2012 and 2011:

	2012	2011
	(in millions)	
Compensation and benefits	$628.9	$577.2
Professional and contract services	165.4	208.0
Occupancy	54.2	64.2
Depreciation and amortization	46.6	47.9
Computer operations and data communications	36.8	36.7
General and administrative	60.8	60.9
Total expenses	$992.7	$994.9

Management Report on Financial Operations (continued)

Investment Income and Other Expense

Traditionally, FINRA has relied on investment returns to provide financial resources to supplement operating results. In 2012, trading portfolio returns and the performance of our other investments increased to 7.1 percent compared to 2.0 percent in 2011.

Net realized and unrealized investment gains: The net realized and unrealized investment gains in 2012 were driven primarily by the sale of securities within our trading portfolio and the partial recoupment of losses related to an available-for-sale security that was deemed impaired resulting in a charge to our statement of operations in 2008. The gains in 2011 were primarily driven by the sale of securities within our trading portfolio.

Equity earnings (losses) from other investments: The performance of our broadly diversified multi-asset fund in 2012 improved from 2011 due to market conditions and was the primary driver of the $59.1 million 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 2012 and 2011:

	2012	2011
	(in millions)	
Interest and dividend income	$ 24.9	$ 25.0
Net realized and unrealized investment gains	42.5	19.0
Equity earnings (losses) from other investments	59.1	(12.5)
Other expense	(1.9)	(0.7)
Total investment income and other expense	$124.6	$ 30.8

CONCLUSION

As noted in FINRA Chairman and CEO Rick Ketchum's letter, 2012 was a solid year for FINRA financially, as the fee increases implemented during the year and the cost savings across technology and back-office functions are reflected in our improved results over the prior year. Furthermore, our modernized fee structure and continued cost savings initiatives are expected to better position FINRA financially over the course of the next two years.

Management believes that we have sufficient liquidity and working capital to meet current and future operating requirements. 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, 2012. 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*. 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, 2012.

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, 2012.

June 28, 2013

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 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 2012, the Audit Committee met seven times, with the Audit Committee members having a 91.4 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 (E&Y), 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 E&Y 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)	
	2012	2011
Audit services (2)	$ 889,000	$ 871,000
Audit-related services (3)	242,100	276,250
Tax services (4)	157,000	150,000
All other services (5)	—	1,590
Total	$1,288,100	$1,298,840

(1) FINRA based its fees reported for 2012 on fees approved by FINRA's Audit Committee as of March 31, 2013. The 2012 audit services, audit-related services and tax services include estimates to complete the current work in process. FINRA has updated the 2011 fees from the prior year's report to reflect final amounts paid for the 2011 approved services.

(2) For 2012 and 2011, audit services represent the financial statement audit and the attestation on internal control.

(3) Audit-related services in 2012 and 2011 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. Audit-related services in 2011 also include an internal controls review and assessment associated with the Company's new data center strategy.

(4) Tax services represent fees related to tax return preparation and review services in connection with the 2012 and 2011 Form 990s and related Form 990-Ts, as well as tax compliance, advice and planning.

Audit Committee Report (continued)

(5) All other services include enterprise risk management (ERM) services in facilitating management's development of an ERM roadmap, performance of an enterprise risk assessment and design of an ERM framework.

The Audit Committee discussed and reviewed with the independent auditor all communications required under the rules adopted by the Public Company Accounting Oversight Board (PCAOB). Further, the Committee has reviewed and discussed with management and with E&Y, with and without management present, the audited financial statements as of December 31, 2012; management's assessment of the effectiveness of FINRA's internal control over financial reporting; and E&Y'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, 2012.

Members of the Audit Committee:

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

June 28, 2013

Investment Committee Report

Year Ended December 31, 2012

The FINRA investment portfolio* is a fund 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 7.1 percent in 2012, including the returns from its cash operating fund. Overall, 2012 was a good year for stock investors, with returns solidly in the double digits despite continuing anxiety about anemic U.S. and worldwide economic growth and debt worries in Europe. The chart below shows investment results for FINRA and for several common market benchmarks. As of December 31, 2012, FINRA's investment portfolio, including cash, totaled approximately $1.6 billion. Portfolio liquidity remains strong, with $845 million, or 54 percent, available in 30 days or less as of December 31, 2012.

		Annualized Returns		
	2012	3-Year	5-Year	Inception
FINRA (1)	7.1%	5.3%	–0.7%	3.5%(2)
Citigroup Treasury Bill-3 Month	0.1%	0.1%	0.4%	1.8%
Barclays US Aggregate	4.2%	6.2%	5.9%	5.3%
S&P 500	16.0%	10.9%	1.7%	4.9%

(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 four times during 2012.

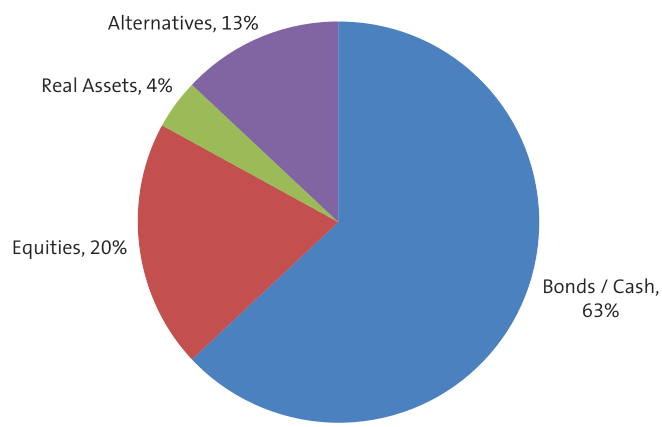
FINRA operates under a lower volatility strategy with the objective of a lower-risk portfolio. FINRA's limited-partnership agreement with HighVista II Limited Partnership, a broadly diversified multi-asset fund managed by HighVista Strategies LLC, uses risk-controlled strategies to obtain market and non-correlated exposures. FINRA's fixed income portfolio is a diversified, high-quality investment-grade portfolio managed by Wellington Management Company, LLP. With this policy, FINRA maintains a broadly diversified investment portfolio, representing a wide range of assets and asset classes, in order to attain acceptable levels of risk and return. The Investment Committee reviews the policy annually and recommends changes subject to approval by the Board of Governors.

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

Investment Committee Report (continued)

The chart below shows portfolio exposures as of December 31, 2012. Market exposures are 63 percent bonds/cash and 20 percent equities. Alternatives, at 13 percent, consist of non-correlated exposures; and real assets, at four percent, comprise investments in real estate, commodities and Treasury Inflation-Protected Securities (TIPS).

Exposures as of December 31, 2012



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 securities, treasury futures and shares in a private investment fund not affiliated with a broker-dealer. Within the portion of the portfolio containing debt 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
Gary H. Stern

June 28, 2013

Management Compensation Committee Report

Year Ended December 31, 2012

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 2012, 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;
- 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), who provides 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.

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

Management Compensation Committee Report (continued)

Summary Compensation Table

The following table presents actual 2012 and 2011 compensation data in the year paid (all amounts are in dollars). The 2013 salary information represents the base annual salary at which the top ten executives as of June 28, 2013, are compensated. It does not represent 2013 year-to-date earnings. The 2013 incentive compensation amounts represent the actual payment in February 2013 based on 2012 performance. Other amounts, including other compensation, deferred compensation and other benefits, are not presented for 2013 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 2012 Form 990 tax returns.

Name and principal position		Salary (1)	Incentive compensation (2)	Other compensation (3)	Deferred compensation (4)	Other benefits (5)	Total	
Richard Ketchum	2013	1,000,000	1,250,000	*	*	*	2,250,000	*
Chairman and Chief	2012	1,000,000	1,250,000	—	340,201	39,504	2,629,705	
Executive Officer	2011	1,000,000	1,200,000	—	451,174	34,660	2,685,834	
Todd Diganci	2013	500,000	680,000	*	*	*	1,180,000	*
EVP and Chief Financial	2012	500,000	680,000	—	35,603	30,920	1,246,523	
Officer	2011	500,000	660,000	—	33,238	31,420	1,224,658	
Robert Colby	2013	500,000	300,000	*	*	*	800,000	*
EVP and Chief Legal	2012	259,615	—	—	27,500	9,943	297,058	
Officer	2011	—	—	—	—	—	—	
Linda Fienberg	2013	459,700	360,000	*	*	*	819,700	*
President, Dispute	2012	459,700	400,000	—	62,263	37,010	958,973	
Resolution	2011	459,700	417,800	—	62,263	29,926	969,689	
J. Bradley Bennett	2013	435,000	450,000	*	*	*	885,000	*
EVP, Enforcement	2012	433,847	435,000	—	115,401	13,457	997,705	
	2011	416,827	—	75,000	90,050	12,507	594,384	
Thomas Gira	2013	400,000	455,000	*	*	*	855,000	*
EVP, Market Regulation	2012	397,870	455,000	—	73,047	42,263	968,180	
	2011	381,539	425,000	—	78,791	36,597	921,927	
Daniel Sibears	2013	395,840	310,000	*	*	*	705,840	*
EVP, Member Regulation	2012	394,686	300,000	—	60,791	43,537	799,014	
	2011	385,840	300,000	—	54,002	41,090	780,932	
Grace Vogel	2013	375,000	500,000	*	*	*	875,000	*
EVP, Member Regulation	2012	374,423	475,000	—	122,178	35,752	1,007,353	
	2011	370,000	500,000	—	118,856	31,754	1,020,610	
Susan Axelrod	2013	375,000	425,000	*	*	*	800,000	*
EVP, Regulatory	2012	351,538	375,000	—	103,160	34,018	863,716	
Operations	2011	325,000	350,000	—	99,179	36,070	810,249	
Steven Joachim	2013	370,000	485,000	*	*	*	855,000	*
EVP, Transparency	2012	370,000	410,000	—	1,643,860 (6)	37,194	2,461,054	
Services	2011	370,000	400,000	—	295,324	32,861	1,098,185	

* 2013 other compensation, 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 2012 compensation for Mr. Colby represents a partial year of employment.

Management Compensation Committee Report (continued)

1 Salary is paid bi-weekly, one week in arrears. 2013 salary information represents the executives' current base annual rate of pay as of June 28, 2013.

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 2013 was paid in February 2013, based on 2012 performance.

3 Other compensation represents signing bonuses.

4 Deferred compensation includes earnings and accruals in supplemental executive retirement plans, which are not available to all employees. Mr. Ketchum, Mr. Colby, Mr. Bennett, Ms. Vogel and Ms. Axelrod participate in FINRA's supplemental defined contribution retirement plan. The remaining listed executives are participants in the supplemental defined benefit retirement plan, which is now closed to new participants. 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.

5 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.

6 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.
- Other compensation is typically discretionary in nature and may include signing bonuses or other nonrecurring awards.

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
James E. Burton
Joel Seligman
Kurt P. Stocker

June 28, 2013

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

Board of Governors

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, 2012, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (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, 2012, 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, 2012 and 2011, and the related consolidated statements of operations and comprehensive (loss) income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2012, and our report dated June 28, 2013 expressed an unqualified opinion thereon.

Ernst + Young LLP

McLean, Virginia
June 28, 2013

Report of Independent Registered Public Accounting Firm

Board of Governors

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, 2012 and 2011, and the related consolidated statements of operations and comprehensive (loss) income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2012. 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, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, 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, 2012, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 28, 2013 expressed an unqualified opinion thereon.

Ernst + Young LLP

McLean, Virginia
June 28, 2013

FINRA Consolidated Balance Sheets

(In millions)

	December 31, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 356.9	$ 424.1
Investments:		
Trading, at fair value	710.3	667.6
Available-for-sale, at fair value	16.0	27.2
Foundation available-for-sale, at fair value	24.0	23.4
Receivables, net	121.0	96.1
Investments receivable	9.1	3.1
Other current assets	29.5	36.6
Total current assets	1,266.8	1,278.1
Property and equipment:		
Land, buildings and improvements	117.6	116.5
Data-processing equipment and software	253.5	267.1
Furniture, equipment and leasehold improvements	119.7	123.7
	490.8	507.3
Less accumulated depreciation and amortization	(340.6)	(337.6)
Total property and equipment, net	150.2	169.7
Goodwill and other intangible assets, net	27.8	31.0
Other investments	730.3	672.6
Other assets	13.4	21.9
Total assets	$2,188.5	$2,173.3

See accompanying notes.

FINRA Consolidated Balance Sheets (continued)

(In millions)

	December 31,	
	2012	2011
Liabilities and equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 33.4	$ 38.7
Accrued personnel and benefit costs	153.9	140.9
Deferred revenue	72.2	52.4
Deferred contribution income	8.2	9.4
Deposits and renewals	69.5	65.2
Investments payable	132.0	162.8
Other current liabilities	6.2	6.6
SEC fee payable	124.2	110.9
Total current liabilities	599.6	586.9
Accrued pension and other postretirement benefit costs	289.9	234.0
Deferred revenue	18.0	22.9
Deferred contribution income	8.9	16.3
Other liabilities	30.8	26.3
Total liabilities	947.2	886.4
Equity	1,484.8	1,474.3
Unrealized gain on available-for-sale investments	1.9	3.1
Net unrecognized employee benefit plan amounts	(245.4)	(190.5)
Total equity	1,241.3	1,286.9
Total liabilities and equity	$2,188.5	$2,173.3

See accompanying notes.

FINRA Consolidated Statements of Operations

(In millions)

	Years Ended December 31,		
	2012	2011	2010
Revenues			
Operating revenues			
Regulatory fees, net of firm rebates of $5.4 in 2012, $5.6 in 2011 and $5.7 in 2010	$ 406.9	$ 407.3	$ 428.6
User fees	164.9	157.0	154.0
Contract services fees	128.2	129.0	111.1
Transparency services fees	56.9	56.0	48.6
Dispute resolution fees	41.7	48.0	54.2
Other	10.9	10.9	11.4
Total operating revenues	809.5	808.2	807.9
Fines	69.1	71.9	42.2
Activity assessment	357.8	346.9	295.2
Total revenues	1,236.4	1,227.0	1,145.3
Activity assessment cost of revenues	(357.8)	(346.9)	(295.4)
Net revenues	878.6	880.1	849.9
Expenses			
Compensation and benefits	628.9	577.2	540.3
Professional and contract services	165.4	208.0	205.4
Occupancy	54.2	64.2	58.6
Depreciation and amortization	46.6	47.9	48.9
Computer operations and data communications	36.8	36.7	29.5
General and administrative	60.8	60.9	58.2
Total expenses	992.7	994.9	940.9
Interest and dividend income	24.9	25.0	30.6
Operating loss	(89.2)	(89.8)	(60.4)
Other income (expense)			
Net realized and unrealized investment gains	42.5	19.0	50.1
Equity earnings (losses) from other investments	59.1	(12.5)	65.2
Other expense	(1.9)	(0.7)	(0.3)
Net income (loss)	$ 10.5	$ (84.0)	$ 54.6

See accompanying notes.

FINRA Consolidated Statements of Comprehensive (Loss) Income

(In millions)

	Years Ended December 31,		
	2012	2011	2010
Net income (loss)	$ 10.5	$ (84.0)	$54.6
Change in unrealized gain on available-for-sale investments	(1.2)	(2.0)	(9.3)
Employee benefit plan adjustments	(54.9)	(61.0)	20.6
Comprehensive (loss) income	$(45.6)	$(147.0)	$65.9

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, 2010	$1,503.7	$14.4	$(150.1)	$1,368.0
Comprehensive income (loss)	54.6	(9.3)	20.6	65.9
Balance, December 31, 2010	1,558.3	5.1	(129.5)	1,433.9
Comprehensive loss	(84.0)	(2.0)	(61.0)	(147.0)
Balance, December 31, 2011	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

See accompanying notes.

FINRA Consolidated Statements of Cash Flows

(In millions)

	Years Ended December 31,		
	2012	2011	2010
Reconciliation of net income (loss) to cash (used in) provided by operating activities			
Net income (loss)	$ 10.5	$(84.0)	$ 54.6
Adjustments to reconcile net income (loss) to cash (used in) provided by operating activities:			
Depreciation and amortization	46.6	47.9	48.9
Net realized and unrealized investment gains	(42.5)	(19.0)	(50.1)
Undistributed equity (earnings) and losses from other investments	(59.1)	12.5	(63.8)
Bad debt expense	5.0	4.2	3.0
Other net non-cash income items	2.8	0.7	1.1
Net change in operating assets and liabilities, net of acquisitions and dispositions:			
Receivables, net	(29.9)	(4.0)	22.5
Other current assets	8.0	(0.6)	(3.9)
Other assets	11.0	10.6	15.6
Accounts payable and accrued expenses	(3.4)	(3.3)	2.9
Accrued personnel and benefit costs	13.0	10.1	13.9
Deferred revenue	14.9	(6.9)	13.2
Deferred contribution income	(8.6)	(8.7)	(9.4)
Deposits and renewals	4.3	5.8	(7.5)
SEC fee payable	13.3	22.6	(61.3)
Other current liabilities	(0.4)	(1.4)	—
Accrued pension and other postretirement costs	1.0	25.6	(10.2)
Other liabilities	4.5	(3.7)	(6.0)
Net cash (used in) provided by operating activities	$ (9.0)	$ 8.4	$(36.5)

See accompanying notes.

FINRA Consolidated Statements of Cash Flows (continued)

(In millions)

	Years Ended December 31,		
	2012	2011	2010
Cash flow from investing activities			
Net (purchases) sales of trading securities	$ (56.6)	$ 66.2	$ 137.9
Proceeds from redemptions of available-for-sale investments	54.9	7.3	32.5
Purchases of available-for-sale investments	(29.2)	(8.4)	(13.1)
Return of capital and proceeds from redemptions from other investments	4.5	28.5	244.9
Purchases of other investments	—	—	(156.5)
Net purchases of property and equipment	(23.2)	(88.6)	(12.7)
Net cash (used in) provided by investing activities	(49.6)	5.0	233.0
Cash flow from financing activities			
Change in donor-restricted and other restricted cash	(8.6)	(8.6)	(9.8)
Other	—	—	(0.4)
Net cash used in financing activities	(8.6)	(8.6)	(10.2)
(Decrease) increase in cash and cash equivalents	(67.2)	4.8	186.3
Cash and cash equivalents at beginning of year	424.1	419.3	233.0
Cash and cash equivalents at end of year	$356.9	$424.1	$419.3

See accompanying notes.

FINRA 2012 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) and other exchanges. We also regulate the over-the-counter (OTC) securities markets, operate transparency facilities and facilitate trading activities through market based information distribution. 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 our Trade Reporting and Compliance Engine (TRACE), which enables investors to see transaction information on a wide range of fixed income products, as well as 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 and other-than-temporary impairment 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, 2012 and 2011, $122.9 million and $159.7 million of net non-cash unsettled trade activity is included in our statements of cash flows within investing activities.

Other Investments

FINRA has 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 financial statements present receivables net of an allowance for uncollectible accounts. As of December 31, 2012, and 2011, an allowance for uncollectible accounts of $17.8 million and $15.5 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, 2012, and 2011, 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 $38.3 million, $35.3 million and $37.9 million for 2012, 2011 and 2010.

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 financial statements reflect unamortized, capitalized software development costs of $14.7 million and $18.0 million as of December 31, 2012, and 2011, within total property and equipment, net in the consolidated balance sheets. Net additions to capitalized software were $5.7 million and $12.1 million in 2012 and 2011. Amortization of capitalized internal computer software costs totaled $8.9 million, $12.9 million and $17.0 million for 2012, 2011 and 2010, 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, 2012 and 2011, 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, 2012 and 2011. 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 $5.2 million, net of accumulated amortization of $25.3 million as of December 31, 2012, and $7.8 million, net of accumulated amortization of $22.7 million as of December 31, 2011. 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 $7.6 million, net of accumulated amortization of $5.3 million as of December 31, 2012, and $8.2 million, net of accumulated amortization of $6.1 million as of December 31, 2011. Amortization expense for intangible and other assets totaled $8.3 million, $12.6 million and $11.0 million for 2012, 2011 and 2010. *See* Note 3, "Acquisition of the Member Regulation Operations of NYSE" for additional information.

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 2012 and 2011, 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, registration fees and firm application fees, based on historical experience, is four months, 14 months, four years and 11 years, respectively.

GLOBAL RESEARCH ANALYST SETTLEMENT

On September 2, 2005, the Federal District Court for the Southern District of New York (the Court) issued an order (the Order) approving the 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, 2012, 2011 and 2010, FINRA recognized revenue as the Foundation incurred grant payments and expenses against the GRA Settlement funds of $8.7 million, $8.7 million and $9.4 million.

Included in other current assets and other long-term assets in the consolidated balance sheets are funds from the GRA Settlement, including the interest earned on these funds. The GRA Settlement funds are included in other assets because their use is restricted to the Foundation. The Foundation invests the GRA Settlement funds in a U.S. Treasury money market fund in accordance with the terms of the GRA Settlement, which stipulates that funds received must be invested in money market funds or securities with maturities of less than six months and backed by the full faith and credit of the federal government. The current and long-term portions of the GRA Settlement funds as of December 31, 2012, were $8.2 million and $9.3 million. The current and long-term portions of the GRA Settlement funds as of December 31, 2011, were $9.1 million and $16.9 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.

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).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2012 and 2011, FINRA recognized the cumulative surplus for the IARD program in its consolidated financial statements as follows:

	As of December 31,	
	2012	2011
	(in millions)	
Current deferred revenue	$ 3.2	$ 0.2
Non-current deferred revenue	0.4	0.4
Other long-term liabilities	8.5	13.4
Total	$12.1	$14.0

REVENUE RECOGNITION AND COST OF REVENUE

Multiple-Element Arrangements

On January 1, 2011, we adopted, on a prospective basis, the amendments proposed in Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2009-13, *Revenue Recognition (Topic* 605*): Multiple-Deliverable Revenue Arrangements — a consensus of the Emerging Issues Task Force*.

ASU No. 2009-13 amends Accounting Standards Codification (ASC) Topic 605 to 1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated and how the consideration in an arrangement should be allocated; and 2) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method. Prior to our adoption of the guidance in ASU No. 2009-13, we used the residual method to allocate consideration in arrangements that included both an upfront initial registration and an ongoing service element. Upon adoption, we allocate consideration received under these types of arrangements using the relative selling price method based on the following hierarchy to determine the selling price: 1) vendor-specific objective evidence (VSOE); 2) third-party evidence of selling price; and 3) our best estimate of selling price. VSOE generally only exists when we sell the deliverable separately.

The adoption of the guidance in ASU No. 2009-13 did not have a material impact on the Company's financial position or results of operations for the year ended December 31, 2011. Furthermore, the adoption of this guidance is not expected to have a material effect on our financial statements in future periods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 by clearing firms may occur. We recognize these adjustments as revenue adjustments in the period they become known to us. The GIA, PA and BOA represent annual fees charged to firms and representatives. We recognize these fees ratably over the applicable annual period.

User Fees

User fees are charged for initial and annual registrations, qualification examinations, FINRA-sponsored educational programs and conferences, reviews of advertisements and corporate filings (corporate financing fees). FINRA charges registration fees for all registered representatives and investment advisers. First-year registration and application fees consist of two deliverables that we account for as separate units of accounting: upfront registration delivered at inception and an ongoing service obligation for the remainder of that calendar year. We allocate arrangement consideration to upfront registrations based on our estimates of selling price. We estimate the selling prices of upfront registrations based on our internal cost structure, pricing practices and objectives, and historical prices. We allocate arrangement consideration to the remaining service obligation based on VSOE of the pricing for these services. Upfront registration revenue is recognized over the estimated service period for individual representatives (four years) and firms (11 years), while the remaining service obligation revenue is recognized ratably over the related remaining annual period. While the pricing model currently in use captures all critical variables, unforeseen changes due 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 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Dispute Resolution Fees

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

Fines

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

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, the TRFs and the 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 clearing and self-clearing firms 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, 2012 and 2011, we had $35.9 million and $26.8 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 the 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. New NASD Holding, Inc. (NAHO), a consolidated subsidiary of FINRA, is a taxable entity. 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, private investments and illiquid investments pending redemption. Our limited partnership investment represents approximately 49 percent of our total invested assets, excluding cash, as of December 31, 2012. The Foundation's investment portfolio consists of mutual funds and a commingled fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2011, the FASB issued ASU No. 2011-04*, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs*. The ASU amended ASC 820, *Fair Value Measurement*, to converge the fair value measurement guidance in U.S. GAAP and International Financial Reporting Standards (IFRSs). Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in ASC 820. In addition, the ASU requires additional fair value disclosures. We adopted the provisions of the ASU with the issuance of our December 31, 2012 Consolidated Financial Statements. The adoption of the ASU did not have a material impact on our consolidated results of operations and financial position.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, which amends ASC 220, *Comprehensive Income.* The ASU eliminates the option to present other comprehensive income (OCI) in the statement of changes in equity and instead requires net income, the components of OCI, and total comprehensive income to be presented in either one continuous statement or two separate but consecutive statements. We adopted the provisions of the ASU with the issuance of our December 31, 2012 Consolidated Financial Statements, presenting total comprehensive income in two separate but consecutive statements. As the ASU only required a change in the presentation of OCI in our consolidated financial statements, the adoption of the ASU did not have a material impact on our consolidated results of operations and financial position.

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 will be effective for FINRA on January 1, 2014; however, early adoption is permitted. 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.

3. ACQUISITION OF THE MEMBER REGULATION OPERATIONS OF NYSE

On July 30, 2007, the National Association of Securities Dealers, Inc. (NASD) combined with the member regulation operations of NYSE to form FINRA. We accounted for the transaction as a business combination and allocated the total consideration paid to the estimated fair values of the tangible and intangible assets acquired and liabilities assumed on the acquisition date. The $15.0 million excess of the consideration paid over the fair value of the net assets we acquired was recorded as goodwill.

3. ACQUISITION OF THE MEMBER REGULATION OPERATIONS OF NYSE (CONTINUED)

The separately identified intangible assets we acquired are as follows:

		2012			2011		
Description	Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
				(in millions)			
Membership lists	11 years	$10.3	$ (5.1)	$5.2	$10.3	$ (4.1)	$6.2
Copyrights	3 years	6.5	(6.5)	—	6.5	(6.5)	—
Executory contract-related	5 years	13.7	(13.7)	—	13.7	(12.1)	1.6
Total		$30.5	$(25.3)	$5.2	$30.5	$(22.7)	$7.8

As of December 31, 2012, estimated amortization expense for each of the next five years is $0.9 million.

4. DEFERRED REVENUE

The following is a summary of amounts that we included in current and non-current deferred revenue as of December 31, 2012, and the years over which we will recognize those amounts:

	Registration	Arbitration	Annual and Other	Total
		(in millions)		
Year ending December 31,				
2013	$ 7.9	$5.0	$59.3	$ 72.2
2014	5.6	—	4.0	9.6
2015	3.4	—	1.8	5.2
2016	1.4	—	—	1.4
2017 and thereafter	1.8	—	—	1.8
	$20.1	$5.0	$65.1	$ 90.2

The following is a summary of activity in our current and non-current deferred revenue for the periods ended December 31, 2012 and 2011, for all revenue arrangements. 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, 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

	Registration	Arbitration	Annual and Other	Total
		(in millions)		
Balance as of January 1, 2011	$ 23.2	$ 6.7	$ 52.3	$ 82.2
Additions	9.0	10.5	306.0	325.5
Amortization	(10.6)	(11.7)	(310.1)	(332.4)
Balance as of December 31, 2011	$ 21.6	$ 5.5	$ 48.2	$ 75.3

5. 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) mutual and commingled funds; 5) other investments (including private investments); and 6) 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 2012, 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,	
	2012	2011
	(in millions)	
Trading investments	$ 710.3	$ 667.6
Available-for-sale investments: FINRA	16.0	27.2
Available-for-sale investments: Foundation	24.0	23.4
Other investments:		
Equity method investments	730.0	672.3
Cost method investments	0.3	0.3
Total other investments	730.3	672.6
Total	$1,480.6	$1,390.8

Trading Investments

The total mark-to-market holding gain on trading securities held at December 31, 2012 and 2011 was $17.3 million and $3.3 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, 2012:				
Mutual funds	$15.9	$0.1	$(—)	$16.0
As of December 31, 2011:				
Mutual funds	$24.9	$2.3	$(—)	$27.2

5. INVESTMENTS (CONTINUED)

For 2012, 2011 and 2010, 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:

	2012	2011	2010
		(in millions)	
Gross investment gains recognized	$4.0	$0.4	$11.0
Gross investment losses recognized	—	—	—
Amounts reclassified from accumulated other comprehensive income	2.6	0.4	10.7

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. As of December 31, 2011, the Foundation had investments in mutual and commingled funds with a cost of $22.6 million and a fair value of $23.4 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 2012, 2011 and 2010, we did not record any impairment charges related to our mutual and commingled funds. As of December 31, 2012 and 2011, we did not identify any events or circumstances that would indicate the value of our mutual and commingled funds should be impaired. Impairment charges relate to other-than-temporary declines in the fair value of available-for-sale investments and are reflected in net realized and unrealized investment gains (losses) in the consolidated statements of operations.

Temporary Declines in Fair Value

As of December 31, 2012, FINRA and the Foundation had no available-for-sale investments with aggregate unrealized losses. As of December 31, 2011, the Foundation had one commingled fund with a fair value of $3.4 million, reflecting unrealized losses of $0.2 million less than six months in duration. FINRA had no available-for-sale investments with aggregate unrealized losses as of December 31, 2011.

Other Investments

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. 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 $58.6 million in 2012, equity losses of $10.1 million in 2011, and equity earnings of $58.4 million in 2010. During 2012 and 2011, we did not make any contributions to this partnership. Our maximum exposure to loss related to this partnership is limited to $725.0 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, 2012 and 2011, was 57.8 percent and 57.0 percent.

5. INVESTMENTS (CONTINUED)

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.

As of December 31, 2011, FINRA had investments accounted for under the equity method of $666.3 million in one limited partnership and $6.0 million in hedge funds. We had an ownership interest in equity method investments with total net assets of $8.3 billion and total losses from operations of $349.0 million as of and for the year ended December 31, 2011. Our weighted ownership interest in all equity method investees was 8.1 percent at December 31, 2011.

In 2011, we recognized equity losses from equity method investments of $12.5 million. We did not recognize any impairment charges on our cost or equity method investments for the year ended December 31, 2011.

In 2010, we recognized equity earnings from equity method investments of $65.2 million. We did not recognize any impairment charges on our cost or equity method investments for the year ended December 31, 2010.

6. 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.

6. 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	$—

6. 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, 2011, and indicates the fair value hierarchy of the valuation techniques utilized to determine fair value:

		Fair Value Measurement at December 31, 2011 Measured Using		
Description	Total carrying amount in balance sheet December 31, 2011	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	$180.0	$ —	$180.0	$—
Corporate debt securities				
Industrial	83.2	—	83.2	—
Utility	69.7	—	69.7	—
Consumer non-cyclical	56.0	—	56.0	—
Other financial institutions	50.4	—	50.4	—
Communication	46.3	—	46.3	—
Insurance	44.3	—	44.3	—
Banking and brokerage	41.4	—	41.4	—
Government securities	48.3	—	48.3	—
Asset-backed securities	34.4	—	34.4	—
Mutual funds	13.6	13.6	—	—
Available-for-sale securities				
Mutual funds	47.2	47.2	—	—
Commingled fund	3.4	—	3.4	—
Total Assets	$718.2	$60.8	$657.4	$—

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

For the years ended December 31, 2012 and 2011, 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.

6. FAIR VALUE MEASUREMENT (CONTINUED)

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.

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.

7. 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.

As of December 31, 2012, and 2011, FINRA had federal unrelated business loss carryforwards of $7.0 million and $11.9 million, respectively, primarily related to international consulting. The loss carryforwards are scheduled to expire beginning in 2027 through 2030.

As of December 31, 2012, and 2011, FINRA had a federal deferred tax asset of $2.7 million and $4.2 million, reflecting the benefit of $7.0 million and $11.9 million in loss carryforwards and other minor deferrals. 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. Realization is dependent on generating sufficient taxable income prior to the expiration of the loss carryforwards. Although realization is not assured, management believes it is more likely than not that all of the deferred tax asset will be realized. 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 2012, 2011 and 2010 income tax provision of $1.9 million, $0.7 million and $0.3 million, respectively, primarily represent the net change in deferred tax assets related to unrelated business loss carryforwards during the year. We did not have any significant unrelated business income taxes currently payable or refundable in 2012 or 2011.

The income tax provision is included in other expense in the consolidated statements of operations in 2012, 2011 and 2010.

7. INCOME TAXES (CONTINUED)

Other

As of December 31, 2012, and 2011, NAHO, a wholly-owned taxable subsidiary of FINRA, had net operating loss carryforwards of $105.6 million. These loss carryforwards will begin to expire in 2020. The amount of the federal deferred tax asset relating to these loss carryforwards as of December 31, 2012, and 2011, was $36.9 million; NAHO has no other deferred tax assets or liabilities. As management currently believes that it is more likely than not that these loss carryforwards will not be realized, a valuation allowance has been established for the full amount of the deferred tax asset.

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 2009 to 2012, 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 benefit in the consolidated balance sheets and statements of operations.

8. EMPLOYEE BENEFITS

Defined Benefit Pension Plans

As of December 31, 2012 and 2011, 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, 2012 and 2011, $16.1 million and $27.2 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 provide for preservation of principal, both in nominal and real terms, in order to meet the long-term spending needs of the ERP by investing assets based on the target allocations stated below. The ERP assets are allocated among a diversified portfolio of equity investments, fixed income securities, alternative investments and cash equivalents with both domestic and international strategies. Derivatives are permitted on a limited scale for hedging or creation of market exposures. Direct debt and equity interests are prohibited in any broker-dealer, exchange, contract market, regulatory client, alternative or electronic trading system, and entities that derive a certain threshold of revenue from broker-dealer activities. Asset allocations are reviewed quarterly and adjusted, as appropriate, to remain within target allocations. The Pension

8. EMPLOYEE BENEFITS (CONTINUED)

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, 2012 and 2011:

	Target Allocation	2012	2011
Equity securities:			
U.S. equity	18.0%	17.9%	17.6%
Non-U.S. equity	16.0%	16.3%	15.1%
Global equity	12.0%	12.1%	11.9%
Debt securities	41.0%	40.0%	38.3%
Cash equivalents	2.0%	4.4%	3.5%
Alternative investments	11.0%	9.3%	9.4%
Real estate	0.0%	0.0%	4.2%
Total	100.0%	100.0%	100.0%

The expected long-term rate of return for the plan's total assets is based on the expected returns of each of the above categories, weighted based on the current target allocation for each class. Based on historical experience, the Pension Committee expects that the ERP's 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, 2012, and 2011, by asset category, and indicate the fair value hierarchy of the valuation techniques utilized to determine fair value:

	Fair Value Measurement at December 31, 2012 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)	$ —	$ 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.

8. EMPLOYEE BENEFITS (CONTINUED)

	Fair Value Measurement at December 31, 2011 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)	$ —	$ 9.0	$ —	$ 9.0
Corporate stocks	7.2	—	—	7.2
Partnership/joint venture interests (b):				
Fixed income	—	—	7.2	7.2
Real assets	—	—	9.6	9.6
Common/collective trusts — equity (c)	—	79.7	—	79.7
Private pension plan investment entities — fixed income (d)	—	47.4	—	47.4
Mutual funds:				
Equity	26.7	—	—	26.7
Fixed income	60.1	—	—	60.1
Total	94.0	136.1	16.8	246.9
Payables, net (2)				(0.1)
Total				$246.8

(2) Represents pending trades at December 31, 2011.

(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) As of December 31, 2012, includes an investment in a private equity fund. As of December 31, 2011, includes an investment in a private equity fund and interests in two limited partnerships. Fair values have been estimated using the net asset value of the Plans' 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 and $3.1 million had been funded as of December 31, 2012 and 2011, respectively.

The first limited partnership is an open-ended partnership that invests in limited liability companies and limited partnerships established to act as real estate investment vehicles. Redemption may occur on a quarterly basis with notice of 30 days, provided there are liquid assets available. In the case of illiquid investments, partial payments will be made on a pro rata basis relative to the size of all other redeeming partners' investments.

In 2011, we entered into a second limited partnership whose investment objective is to maximize total returns by investing primarily in senior secured, floating rate loans of non-investment grade companies. Withdrawals may occur on a quarterly basis with a 90-day written notice prior to the withdrawal date. In the case of a complete withdrawal, 90 percent of the estimate of the amount due will be paid within 30 days after the withdrawal date.

(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.

8. 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, 2010	$ 7.9
Actual return on plan assets:	
Relating to assets still held at the reporting date	1.4
Relating to assets sold during the period	—
Purchases	7.6
Sales	(0.1)
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)
Ending balance at December 31, 2012	$ 3.6

Any changes to the unobservable inputs would not be material.

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 6, "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, 2012 and 2011, 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, 2012 and 2011, 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.

8. EMPLOYEE BENEFITS (CONTINUED)

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, 2012 and 2011, and the accumulated benefit obligation at December 31, 2012 and 2011, are as follows:

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
	(in millions)			
Change in benefit obligation				
Benefit obligation at beginning of period	$ 450.7	$ 363.1	$ 40.9	$ 37.2
Service cost	38.3	32.7	3.1	2.8
Interest cost	19.8	18.2	1.9	2.3
Actuarial (gains) losses	76.6	51.5	7.9	(0.5)
Benefits paid	(27.9)	(11.7)	(0.7)	(0.9)
Curtailment gain	—	(3.1)	—	—
Benefit obligation at end of period	$ 557.5	$ 450.7	$ 53.1	$ 40.9
Change in plan assets				
Fair value of plan assets at beginning of period	$ 246.8	$ 244.0	$ —	$ —
Actual return on plan assets	31.6	(2.2)	—	—
Company contributions	59.1	16.7	0.7	0.9
Benefits paid	(27.9)	(11.7)	(0.7)	(0.9)
Fair value of plan assets at end of period	$ 309.6	$ 246.8	$ —	$ —
Underfunded status of the plan	$(247.9)	$(203.9)	$(53.1)	$(40.9)
Accumulated benefit obligation (ABO)	$ 386.8	$ 310.2		

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

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
	(in millions)			
Current	$ 9.8	$ 9.5	$ 1.3	$ 1.3
Noncurrent	238.1	194.4	51.8	39.6
Net amount at December 31	$247.9	$203.9	$53.1	$40.9

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, 2013.

8. EMPLOYEE BENEFITS (CONTINUED)

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

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
	(in millions)			
Unrecognized net actuarial loss	$(221.0)	$(172.5)	$(11.3)	$ (3.4)
Unrecognized prior service cost	(1.3)	(1.5)	(11.7)	(13.0)
Unrecognized net transition obligation	—	—	(0.1)	(0.1)
Net amount at December 31	$(222.3)	$(174.0)	$(23.1)	$(16.5)

The following amounts were included in other comprehensive income (loss) during 2012:

	Incurred but Not Recognized	Reclassification Adjustment for Prior Period Amounts Recognized
	(in millions)	
Actuarial gain (loss)		
Pension benefits	$(58.5)	$10.0
Other benefits	(7.9)	—
	(66.4)	10.0
Prior service cost		
Pension benefits	—	0.2
Other benefits	(0.1)	1.4
	(0.1)	1.6
	$(66.5)	$11.6

Estimated amounts to be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost during 2013 based on December 31, 2012, plan measurements are as follows:

	Pension Benefits	Other Benefits
	(in millions)	
Unrecognized prior service costs	$ 0.2	$1.4
Unrecognized actuarial losses	13.4	0.3

The weighted-average assumptions used to determine benefit obligations for the years ended December 31, 2012 and 2011, are as follows:

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Discount rate	4.00%	4.50%	3.55%	4.35%
Rate of compensation increase	4.78%	4.75%	—	—

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

	Pension Benefits			Other Benefits		
	2012	2011	2010	2012	2011	2010
Discount rate	4.50%	5.25%	5.75%	4.35%	5.68%	6.15%
Rate of compensation increase	4.75%	4.74%	4.92%	—	—	—
Expected return on plan assets	7.00%	7.75%	7.75%	—	—	—

8. EMPLOYEE BENEFITS (CONTINUED)

The assumptions above are used to develop the benefit obligations at year end and to develop the net periodic benefit cost for the subsequent year. Therefore, the assumptions used to determine benefit obligations were established at each year end while the assumptions used to determine net periodic benefit cost for each year are established at the end of each previous year. The expected return on plan assets that will be used in the determination of 2013 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		
	2012	2011	2010	2012	2011	2010
			(in millions)			
Service cost	$ 38.3	$ 32.7	$ 31.7	$3.1	$2.8	$2.3
Interest cost	19.8	18.2	18.9	1.9	2.3	2.1
Expected return on plan assets	(16.4)	(18.1)	(14.3)	—	—	—
Recognized net actuarial losses	10.0	5.6	7.2	—	—	—
Prior service cost recognized	0.2	0.2	0.2	1.4	1.4	1.4
Settlement expense	2.9	—	—	—	—	—
	$ 54.8	$ 38.6	$ 43.7	$6.4	$6.5	$5.8

The assumed health care cost trend rate to be used for the next year to measure the expected cost of other benefits is 9.0 percent, with a gradual decline to 4.9 percent by the year 2017. This estimated trend rate is subject to change. The assumed health care cost trend rate can have a significant effect on the amounts reported. However, a 1-percentage-point change in the assumed health care cost trend rate would not have a material impact on the benefit obligation or service and interest components of net periodic benefit cost.

We measure our plans as of the end of each fiscal year. During 2011, FINRA changed the funding policy of the ERP to better align with the requirements of the Pension Protection Act. Under the new funding policy, we will contribute enough to fund at least 100 percent of the ERP's funding target liability as set forth by the Internal Revenue Service (IRS). Prior to this adoption, the ERP's funding policy targeted a funded ratio of the greater of the funding target liability or 100 percent of the ABO, the latter measure including a corridor between 95 percent and 110 percent of the ABO. In 2013, we expect to contribute $54.2 million to the ERP. We do not expect to make any contributions to the SERP in 2013. 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,		
2013	$ 31.5	$ 2.3
2014	23.4	2.5
2015	25.8	3.0
2016	29.2	3.5
2017	39.3	4.2
2018 through 2022	265.9	35.1
Total	$415.1	$50.6

8. EMPLOYEE BENEFITS (CONTINUED)

All Other Benefit Plans

FINRA also maintains a voluntary contributory savings plan for eligible employees. Employees are immediately eligible to make elective contributions to the plan up to specified plan limits. Employees are also eligible to receive from FINRA a corresponding dollar-for-dollar matching contribution on any elective contribution made by the participant to the savings plan, up to a maximum of 4 percent of base compensation, with an additional discretionary match. The plan also has a retiree medical match equal to 25 cents on the dollar for elective contributions in excess of 6 percent of compensation, up to an annual maximum match of $1,000. Savings plan expense for 2012, 2011 and 2010 was $18.9 million, $17.8 million and $16.0 million, respectively, and is included within compensation and benefits expense in the consolidated statements of operations. The savings plan expense includes a discretionary 1 percent match totaling $3.2 million, $3.0 million and $2.7 million for 2012, 2011 and 2010, respectively, which is included within compensation and benefits expense in the consolidated statements of operations. The retiree medical match for 2012, 2011 and 2010 totaled $1.7 million, $1.6 million and $1.4 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. 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. 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. Expenses related to the new defined contribution component to the savings plan for 2012 and 2011 were $3.5 million and $0.9 million, respectively, and are included within compensation and benefits expense in the consolidated statement of operations. The new defined contribution component to the savings plan also resulted in a decrease to the ERP's benefit obligation by approximately $3.1 million as of December 31, 2011.

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, 2012, $9.8 million of investments and $9.8 million of amounts due to plan participants are included in trading investments and accrued personnel costs, respectively, in the consolidated balance sheet, representing participant contributions to this plan and accrued earnings. As of December 31, 2011, $7.8 million of investments and $7.8 million of amounts due to plan participants are included in trading investments and accrued personnel costs, respectively, in the consolidated balance sheet, representing participant contributions to this plan and accrued earnings. As of December 31, 2012 and 2011, FINRA made no additional contributions to this plan.

FINRA maintains a defined contribution SERP for the Company's senior officers. FINRA makes annual contributions based on salary and a portion of incentive compensation. Contributions and earnings vest upon the earlier of 1) the end of each third year of participation following such contribution; 2) attainment of age 62; 3) death; or 4) a disabled participant's termination of employment. 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 costs, respectively, in the consolidated balance sheet, representing FINRA's contributions to this plan plus accrued earnings. As of December 31, 2011, $5.8 million of investments and $5.8 million of amounts due to plan participants are included in trading investments and accrued personnel costs, respectively, in the consolidated balance sheet, representing FINRA's contributions to this plan plus accrued earnings.

9. LEASES

FINRA leases certain office space and equipment in connection with its operations. The majority of these leases contain escalation clauses based on increases in rent, property taxes and building operating costs. Certain of these leases also contain renewal options. Rent expense for operating leases was $28.1 million, $29.6 million and $27.3 million for the years ended December 31, 2012, 2011 and 2010, 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, 2012:

Year ending December 31,	*(in millions)*
2013	$ 28.3
2014	27.5
2015	24.3
2016	23.3
2017	22.9
Remaining years	72.0
Total minimum lease payments	$ 198.3

10. 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, 2012, 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, 2012.

11. SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 28, 2013, the date these financial statements became available to be issued.

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