

# Financial Guiding Principles

1. **Fund Our Mission** – As a not-for-profit organization, we target break-even cash flows that allow us to appropriately fund our mission of protecting investors and promoting market integrity while facilitating vibrant capital markets. Operating expenses are primarily funded through operating revenues. We rely on our financial reserves (discussed below) to support our mission, and draw upon the principal as needed.
2. **Ensure Financial Transparency** – We publish an Annual Financial Report that is prepared and presented in accordance with GAAP and audited by an independent public accounting firm. We also publish a top-line annual budget that demonstrates our primary sources of income and our primary expenses for the coming year. Following each fiscal year, we provide an accounting of the approved uses of fine monies (discussed below) during that year.
3. **Manage Expenses Responsibly** – We carefully manage expenses while ensuring that we can carry out our regulatory responsibilities effectively.
  - 3.1 **Compensation Oversight** – Our employees are our most important asset. We seek to offer compensation in line with the competitive market in order to attract, develop and retain high-performing individuals who can help us achieve our mission. The Board’s Management Compensation Committee reviews and approves the salary structure and the annual incentive compensation pool for the organization, as well as the individual incentive compensation awards for the most senior executives. Each year, the Committee provides a report that is included in our Annual Financial Report. Although a variety of factors are considered when determining compensation levels for individual employees and the organization as a whole, no compensation determinations are based on fines or other sanctions imposed on the industry.
  - 3.2 **Capital Initiatives Oversight** – Appropriate investments in capital initiatives to enhance our technology and regulatory capabilities are critical to our mission. These projects are non-recurring expenditures that improve the effectiveness and efficiency of our operations; they must undergo a senior management review and approval process, with projects above defined thresholds requiring special approval by the Board or its Finance, Operations and Technology Committee (Finance Committee). These projects fall into several categories:
    - **Capital Maintenance** – Necessary expenditures for items such as building/leasehold improvements or hardware/software (such as servers, storage devices or network equipment).
    - **Mandatory Initiatives** – Regulatory expectations driven by the SEC or other legal, regulatory, audit or contractual requirements; initiatives required by technology obsolescence (such as software no longer supported by vendors); and required infrastructure support (such as cybersecurity improvements).
    - **Carryover Initiatives** – Projects in one of the former categories that carry over from a prior year are evaluated for continued funding.
    - **New Initiatives/Enhancements:**
      - **Minor Enhancements** – Funding to provide capacity for minor enhancements to existing technology (*i.e.*, software improvements).
      - **New Initiatives** – Investments in new systems or technology that will improve our regulatory capabilities or services. These initiatives are assessed for their contribution to our operational efficiency and effectiveness, including their ability to provide demonstrable improvements to the quality of FINRA’s regulatory program, tangible benefits for member firm compliance, or a measurable and acceptable financial return.

4. **Maintain Reasonable Member Fee Levels** – We increase member fees only after evaluating other potential sources of funding (*including* drawing down on excess reserves) and determining that our expenses are appropriately calibrated to our regulatory responsibilities.
5. **Use Fines to Promote Compliance and Improve Markets** – When a member firm or registered representative engages in misconduct, restitution for harmed customers is our highest priority, although there are many cases in which it is not practical. We also assess whether a sanction should be imposed in order to discourage similar conduct by the firm, registered representative, or others. When we impose fines, the amounts are based on the facts and circumstances of the misconduct and the principles set forth in our Sanction Guidelines; fines are not based on revenue considerations, and we do not establish any minimum amount of fines that must be collected for purposes of our annual budget.

Fines collected are accounted for separately, and the use of these monies is subject to special governance procedures, restrictions on use and transparency requirements.

- Any use of fine monies, regardless of amount, must be separately approved by the Board or its Finance Committee. These monies are not considered in determining employee compensation and benefits.
  - The Board or Finance Committee may authorize the use of these funds for: (i) capital/initiatives or non-recurring strategic expenditures that promote more effective and efficient regulatory oversight by FINRA (including leveraging technology and data in a secure manner) or that enable improved compliance by member firms; (ii) activities to educate investors, promote compliance by member firms through education, compliance resources or similar projects, or ensure our employees are highly trained in the markets, products and businesses we regulate; (iii) capital/initiatives required by new legal, regulatory or audit requirements; or (iv) replenishing reserves (described below) in years where such reserves drop below levels reasonably appropriate to preserve FINRA’s long-term ability to fund its regulatory obligations.
  - On an annual basis, we make public a description of the Board or Finance Committee-approved uses of fine monies during the prior year.
6. **Sustain Appropriate Reserves** – We rely on our financial reserves, which originally derived from the sale of NASDAQ, to support our regulatory mission. We strive to maintain an appropriate level of reserves; currently, the Board believes that level is at least one year of expenditures. Reserves are invested at the direction of the Board’s Investment Committee, which provides a report that is included in our Annual Financial Report. The Board may draw upon the principal as needed, including to cover cash flow losses, defer fee increases, support FINRA’s regulatory operations, enhance member firm compliance or otherwise improve markets.

The FINRA Board will review these Principles on an annual basis.