Financial Industry Regulatory Authority

FINRA 2015 Year in Review and Annual Financial Report

Richard G. Ketchum
Chairman and
Chief Executive Officer

FROM THE CHAIRMAN AND CEO

When I became CEO of FINRA in 2009, FINRA monitored on average 2.3 billion quotes, orders and trades each day, and was responsible for regulating approximately 50 percent of U.S. equity trading. Today, FINRA processes and monitors on average 50 billion—and up to 75 billion—pieces of market data every day. We conduct cross-market surveillance for trading in 99 percent of the listed equity market and 65 percent of the listed options market.

This dramatic growth in FINRA's ability to process and monitor massive amounts of data is reflective of the tremendous steps we have taken over the past seven years to improve our regulatory oversight of the complex and interconnected U.S. securities markets and how FINRA has leveraged cutting-edge technology to regulate markets. At the heart of this years-long effort is a culture that puts investors first.

We continue to look for opportunities to enhance our oversight programs to ensure that we meet our investor-protection objectives, and to boost investor confidence in the markets and the securities professionals with whom they work.

As a regulator, our first responsibility is to investors. This focus is integral to the initiatives we have undertaken over the past several years—and continue to pursue—to implement strong and efficient oversight programs that protect investors and the markets, provide greater transparency of market transactions, and ensure that investors have the knowledge and resources to capably navigate markets and make informed choices regarding firms, brokers and products.

In my letters to you over the past several years, I described our shift to a data-driven, risk-based examination program, enhancements to the technology that powers our market surveillance program, and our market transparency initiatives, including shedding more light on alternative trading systems' (ATSs) trading activity. We have made significant progress on each of these initiatives. For example, we have expanded the Trade Reporting and Compliance Engine (TRACE), which was originally conceived as a venue to report corporate bond transactions, to include agency debentures and securitized products, increasing the total number of securities reported to TRACE from approximately 30,000 to more than 1.4 million. TRACE volumes have also consequently increased from $22 billion in average daily par value traded in 43,000 trades in 2009 to more than $250 billion in 60,000 trades in 2015.

We continue to work to ensure that the regulatory community has comprehensive information on market activities. In May 2016, the U.S. Department of the Treasury and the Securities and Exchange Commission (SEC) asked FINRA to consider a proposal to require firms to report U.S. Treasury cash market transactions to a centralized repository, for which we could leverage the TRACE system.

Throughout 2015, we made meaningful progress to build upon each of these initiatives. We continue to look for opportunities to enhance our oversight programs to ensure that we meet our investor-protection objectives, and to boost investor confidence in the markets and the securities professionals with whom they work.

Putting Investors First

Effectively and efficiently addressing emerging investor-protection concerns is one of the ways we continuously build and maintain confidence in the markets. In 2015, we pursued a number of rulemaking initiatives to address emerging issues. For example, in October, we proposed a rule to protect seniors from financial exploitation. The rule addresses one of the concerns highlighted by the FINRA Securities Helpline for Seniors™, which we launched in April 2015 to provide senior investors with a resource for assistance on concerns with brokerage accounts and investments.

Effectively and efficiently addressing emerging investor-protection concerns is one of the ways we continuously build and maintain confidence in the markets.

The Securities Helpline for Seniors is fulfilling a critical unmet need. In the first full year of operation, the helpline received more than 4,200 calls from seniors and their families seeking help and facilitated the return of more than $1.3 million in voluntary reimbursements from firms to customers. In addition, we have obtained information that points to criminal behavior and have been able to stop potentially fraudulent behavior—either through a FINRA action or a referral to another regulator. In the first year of operation, FINRA referred more than 200 matters to state, federal and foreign regulators, and made more than 70 referrals to Adult Protective Services in 15 states under mandatory reporting laws.

Calls into the senior helpline also highlight the issues firms face regarding who they can contact if an account holder is suspected to be vulnerable and has not designated someone with power of attorney, and whether a firm can delay a transfer of a vulnerable person's account without violating FINRA

SENIOR HELPLINE BY THE NUMBERS: APRIL 2015-APRIL 2016

The FINRA Securities Helpline for Seniors was launched in April 2015 to provide senior investors with a resource for assistance on concerns with brokerage accounts and investments.

More than $1.3 million returned to customers due to firms proactively investigating issues raised by the Helpline.

More than 4,200 calls from seniors and their families.

More than 70 referrals to Adult Protective Services in 15 states and more than 200 referrals to state, federal and foreign regulators.

rules while investigating the matter or deciding how best to handle the situation. In response, FINRA proposed rules that would permit firms to place a temporary hold on a disbursement of funds or securities from a customer's account, where there is a reasonable belief of financial exploitation, such as fraudulent activity. The rule would also allow firms to notify a customer's trusted contact person of the firm's decision to place the temporary hold. We received a number of comments on the rule proposal, which we published in *Regulatory Notice 15-37*, and are reviewing the next steps.

We continue to assess emerging issues that may pose investor protection concerns. Our goal is three-fold: to provide additional guidance to firms on effective industry practices that promote better investor protection and bolster controls and compliance procedures, to provide information for investors, and to help FINRA gather data to improve our regulatory efficiency.

Last year, we issued two reports examining senior-investor issues: the National Senior Investor Initiative Report, issued jointly with the SEC, and the Report on the FINRA Securities Helpline for Seniors. Both share effective practices related to senior investors that firms should consider. The year-end helpline report also highlights situations where the helpline has had a positive impact on seniors' lives.

In February 2015, we issued the Report on Cybersecurity Practices, which highlights effective practices in the industry and discusses a risk management-based approach to cybersecurity, and in March 2016, we issued a Report on Digital Investment Advice to highlight broker-dealers' obligations under FINRA rules, share effective practices related to digital investment advice tools and provide considerations for investors in evaluating investment advice derived from digital investment advice tools.

Enforcing the Rules

One of FINRA's top priorities is to advance investor confidence in the securities markets through vigorous, fair and effective enforcement of FINRA rules, and federal securities regulations. In 2015, through our vigilance, we brought 1,512 disciplinary actions against registered brokers and firms and levied $93.8 million in fines.

In addition, we ordered $96.6 million in restitution to harmed investors—almost three times the amount of restitution ordered in 2014. For example, we ordered two firms to pay a total of $15.3 million in restitution to customers in Puerto Rico, in connection with the firms' supervisory failures related to the sales of Puerto Rican municipal bonds and closed-end funds.

FINRA also ordered restitution to customers who did not receive applicable sales-charge discounts. These included orders for 12 firms to pay more than $4 million in restitution for missed sales charge discounts for unit investment trust purchases, and orders for ten firms to pay more than $48 million in connection with sales charge discounts for charities and retirement accounts.

ENFORCEMENT IN 2015

One of FINRA's top priorities is to advance investor confidence in the securities markets through vigorous, fair and effective enforcement of FINRA rules, and federal securities regulations.

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1,512 disciplinary actions against registered brokers and firms.

$96.6 million in restitution to harmed investors—almost three times the amount of restitution ordered in 2014.

FINRA also ordered restitution to customers in connection with sales of complex products. We ordered one firm to pay more than $10 million to customers affected by that firm's mutual fund-related suitability violations and failure to provide applicable breakpoint discounts. We required another firm to pay $1.7 million in restitution to certain customers who purchased non-traditional ETFs, and ordered another firm to pay $434,000 in restitution to customers for sales of unsuitable reverse convertibles.

We remain committed to taking swift action to stop fraudulent conduct. In one case, we obtained a Temporary Cease and Desist Order against a firm and its CEO to halt further fraudulent sales of equity interests in the firm. In another, we charged a firm and its president with fraud in the sales of certain promissory notes; the same day, the SEC charged the issuer of the notes with fraud and obtained an emergency asset freeze, acknowledging FINRA's assistance.

In addition, FINRA's Office of Fraud Detection and Market Intelligence referred more than 800 fraud and insider trading cases to the SEC and other federal or state law enforcement agencies for additional investigation and potential litigation and prosecution.

Rulemaking to Address Emerging Issues

We continue to look for opportunities to enhance our rules and ensure they meet their intended investor-protection objectives. Last year, we developed proposals to address the results of the retrospective rule review assessments of the Communications with the Public and Gifts, Gratuities and Non-cash Compensation rule sets. In May 2015, FINRA published a *Regulatory Notice* requesting comment on proposed amendments that would eliminate certain filing requirements for communications that present a low level of risk to investors, such as generic investment company material and investment company shareholder reports, and that would make other changes to better align the requirements to the relative risks presented by specific types of sales material. For the Gifts, Gratuities and Non-cash Compensation rule sets, in May 2016, FINRA's Board approved a proposal to consolidate the rules under a single series, increase the gift limit and add exceptions for gifts related to specific life events.

Last year, we also began a retrospective assessment of the Membership Application Rules. In March 2016, FINRA staff published a report highlighting what they have learned through the comment process and surveys of firms and interested parties. We are exploring a combination of guidance, proposed rule modifications, process and administrative changes and technological updates to enhance the effectiveness and efficiency of the rules.

We continue to look for opportunities to enhance our rules and ensure they meet their intended investor-protection objectives.

We continued to address conflicts of interest, which can compromise the quality of service firms provide to clients. We sought and received SEC approval for rules to address debt-research conflicts of interest and also introduced proposals to inform customers of potential conflicts and other considerations when deciding whether to move assets to a transferring registered representative's new firm. In August 2015, we began a targeted review of compensation practices to assess how firms identify, mitigate and manage conflicts of interest related to compensation practices.

Working in partnership with the SEC, we took steps to finalize rules for funding portals that become FINRA members pursuant to the provisions of the Jumpstart our Business Startups (JOBS) Act and the SEC's Regulation Crowdfunding. We wrote rules specifically governing funding portals and streamlined the rules to reflect the limited scope of activity permitted by funding portals while also maintaining investor protection. FINRA's Funding Portal Rules and related forms for SEC-registered funding portals that become FINRA members became effective in January 2016.

Throughout the year, we also took steps to expand investor access to information about the firms and professionals with whom they do business. We received approval from the SEC to require each of a member firm's websites to include a readily apparent reference and hyperlink to BrokerCheck® on the initial web page that the firm intends to be viewed by retail investors, and any other web page that includes a professional profile of one or more registered persons who conduct business with retail investors. The rule change, which became effective June 6, 2016, is a key component of FINRA's ongoing efforts to help investors make informed choices about brokers and brokerage firms.

Transforming the Exam Program and Addressing Unethical Associated Persons

As a regulator of a rapidly changing industry, we always strive to be innovative and nimble enough to take advantage of the emerging technologies available to us. In my previous letters, I described how we are using technology and data to improve the quality and effectiveness of our surveillance and examination programs, as well as our operating effectiveness and efficiency. Our efforts to develop a greater understanding of firms' business activities and risks before beginning an examination have allowed us to spend less time conducting on-site examinations. Compared with examinations performed under the old process, on-site time as a percentage of overall examination hours dropped from 32 to 19 percent.

We continue to use data and analytics to identify registered representatives who pose heightened threats to investors. For example, we are using real-time data to help us identify individual brokers who pose a significant risk to investors or the industry—and where they have harmed investors and violated our rules, to confront them as quickly as possible. This "High Risk Broker Program" uses incoming regulatory intelligence such as broker terminations, complaints, tips, arbitrations and field reports from ongoing exams to pinpoint brokers we want to quickly investigate. Since inception of the program in February 2013, more than 230 associated persons designated as high-risk brokers have been barred from the securities industry. Importantly, the entire investigation and prosecution cycle for high-risk brokers averaged around 115 days.

As a regulator of a rapidly changing industry, we always strive to be innovative and nimble enough to take advantage of the emerging technologies available to us.

In addition, we use analytics to help us pinpoint high-risk brokers for heightened surveillance. Leveraging these analytics, in 2015, we conducted 170 targeted registered representative exams and designated an additional 159 individuals for surveillance. We referred 20 examinations for formal disciplinary action.

A strong and effective continuing education program is also a critical component of our regulatory program. Last year, we marked the twentieth anniversary of the Continuing Education program, which FINRA administers in conjunction with other self-regulatory organizations and the Securities Industry/Regulatory Council on Continuing Education. We also transitioned the Regulatory Element component to an online format, which allows participants to satisfy their requirement from a home or office computer at a time and location convenient to them. We continue to enhance our continuing education programs to ensure that the programs keep pace with the evolution of the securities industry.

Focus on Market Integrity

As I noted in my letter to you last year, we have enhanced the technology behind our market surveillance programs. New "big data" technologies and cloud computing provide a more effective and economical approach to our technology needs for the collection of market data, and related processing, surveillance and analysis. In 2015, we began migrating our existing databases and surveillance patterns to cloud solutions to achieve greater processing capacity and cost efficiencies, and we remain on target to complete this migration by the end of June 2016. The cloud platform is already demonstrating its resilience. On August 24, 2015, when the Dow Jones Industrial Average tumbled more than one thousand points within the first ten minutes of trading, FINRA processed more than 75 billion pieces of market data, significantly eclipsing the 42 billion events we processed on average in 2015. While the spike in volume would have been problematic for the older data applications, the cloud platform handled the additional volume effectively.

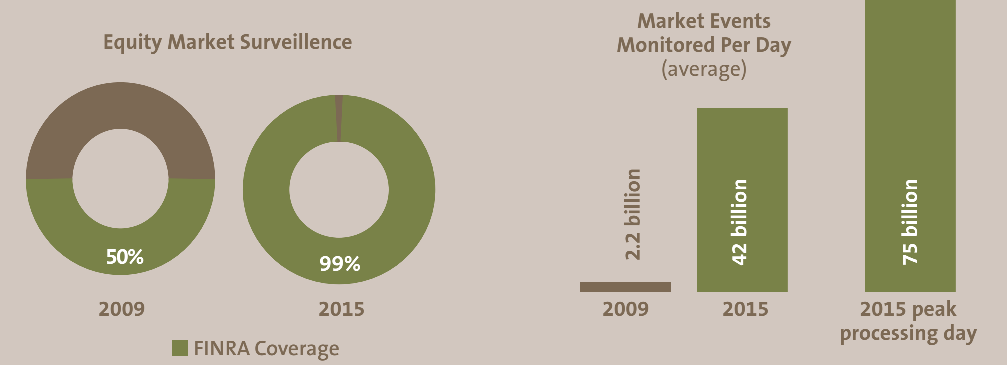
In addition, we took steps to expand and enhance our cross-market surveillance capabilities to strengthen FINRA's ability to track trading across exchanges and products, in order to better protect investors and increase market integrity. Specifically, throughout 2015, following the January 2015 agreement to provide options surveillance to the Chicago Board Options Exchange (CBOE), we worked to fully integrate the CBOE's surveillance patterns and tools into FINRA's program. As a result of the agreement, FINRA now conducts market surveillance for approximately 65 percent of all options volume—and provides some type of regulatory services to all 14 options markets in the United States.

New "big data" technologies and cloud computing provide a more effective and economical approach to our technology needs for the collection of market data, and related processing, surveillance and analysis.

We continue to apply the knowledge gained from equity and options cross-market surveillance to refine existing patterns to more effectively identify problematic trading activity and develop new surveillance patterns to address new threat scenarios. Our cross-market surveillance program allows us to run dozens of surveillance patterns and threat scenarios across the data we gather to look for, among other things, layering, spoofing, algorithmic gaming, wash sales and other manipulative and distortive conduct.

As a result of these programs, last year, FINRA's Market Regulation department made 142 referrals to the SEC related to our cross-market surveillance program.

MARKET SURVEILLANCE



Enhancing Transparency in Securities Markets

Enhancing transparency is a significant part of the work we do in both the stock and bond markets.

In the fixed income area, we have been working closely with the SEC and Municipal Securities Rulemaking Board to develop ways to enhance transparency of the execution quality in the fixed income market. In 2015, we proposed a rule that would require member firms to disclose additional information on customer confirmations for transactions in corporate and agency debt securities. Specifically, the rule would require firms to disclose the mark-up on the price of a customer trade where both the firm's principal trade and the customer trade occur on the same trading day. Our goal is to provide meaningful and useful pricing information to help investors monitor costs, promote transparency into firms' pricing practices and help enhance investor confidence in the market.

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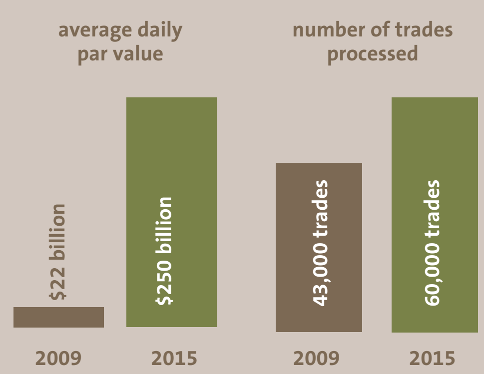
In the equities markets, we continued to build on the work we have been doing to enhance ATS and dark-pool volume transparency. Since 2014, we have been publishing the trade reporting activity of ATSs on our website. In April 2016, we expanded this initiative and began publishing the remaining equity volume executed over-the-counter by FINRA member firms, including the trading activity of non-ATS electronic trading systems and internalized trades. This information is available free of charge on FINRA's website, and will help investors better understand a firm's trading volume and market shares in the equity market.

Educating Investors

During 2015, we continued to build on our outreach to investors with innovative educational programs and a constant stream of valuable investor information. In April, we launched TheAlertInvestor.com, a digital magazine geared toward individual investors. In the first 12 months of operation, The Alert Investor published more than 175 pieces of content, and signed content syndication agreements with leading internet content providers, including BusinessInsider.com and The Motley Fool, which together have syndicated more than 50 pieces of content. The site generated 1.1 million page views in the first year and currently has about 2,500 subscribers who receive new

TRANSPARENCY

We have expanded TRACE, which was originally conceived as a venue to report corporate bond transactions, to include agency debentures and securitized products, increasing the total number of securities reported to TRACE from approximately 30,000 to more than 1.4 million. TRACE volumes have also consequently increased from $22 billion in average daily par value traded in 43,000 trades in 2009 to more than $250 billion in 60,000 trades in 2015.



content delivered straight to their inboxes. The Alert Investor adds a new digital dimension to the array of innovative outreach tools and resources we pursue through our Investor Education programs and the FINRA Investor Education Foundation. We published 12 new Investor Alerts, including one providing tips and suggestions for planning transfer of assets on death, and 52 new articles that were syndicated nationally through Yahoo! Finance and The Motley Fool.

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During 2015, the Foundation completed distribution of the $55 million it received under the Global Research Analyst Settlement, which was required to be spent down by September 2015. In February 2015, the FINRA Board of Governors approved a $50 million contribution to the FINRA Investor Education Foundation to provide continuing support for the Foundation's innovative research and education efforts.

The Foundation managed the third wave of the National Financial Capability Study in partnership with the U.S. Department of the Treasury and other agencies, nonprofits and academics. The study has grown in stature with each successive wave and is now among the premier data sets of its kind, serving as an empirical resource for researchers worldwide.

In 2015, the Foundation passed the $10 million threshold in its support of public library efforts to make reliable, unbiased personal finance education and information available to families in all parts of the country.

The Foundation also expanded efforts to credentialed military spouses, allowing them to deliver financial counseling to America's service members and their families. Since the program's inception, the FINRA Foundation's military spouse fellows have provided over 400,000 hours of service to military communities in need.

Throughout 2015, the Foundation continued to build the capacity of law enforcement, social workers and victim service providers to protect consumers from financial fraud, and to assist those who have already been victimized. Since 2012, the FINRA Foundation has trained nearly 3,000 law enforcement personnel from 700 different federal, state and local agencies. This partnership has allowed us to foster new relationships in the field and increased collaboration with the SEC and state regulators.

EDUCATING INVESTORS

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Financials

FINRA's financial position remains strong and highly liquid with approximately $2.3 billion of total assets, including $2.0 billion of cash and investments, and approximately $1.5 billion in equity. This strength positions us well to continually improve through prudent investments in technology and other areas that uphold our mission of investor protection and market integrity.

As a not-for-profit organization, our annual operating results fluctuate year to year based on the amount of investments made in carrying out our mission, which is largely funded by annual yields from our portfolio and fines we collect. While we operated at a loss of approximately 4 percent of revenues in 2015, that loss was primarily driven by planned improvements related to our continuing efforts to migrate to the cloud, which will generate cost savings in future years, and expanding investor protection through cross-market, cross-product and options surveillances. Additionally, we invested in an advertising campaign aimed at increasing investor awareness about BrokerCheck and promoting it to the public as an indispensable, free tool to obtain critical information about brokers and firms. Portfolio returns were slightly positive for the year, in line with their benchmarks but down from prior years, as were total fines collected.

A more detailed view of our 2015 financials can be found on the following pages.

Looking Ahead

FINRA remains committed to pursuing programs that support our mandate to protect investors and the markets, and to putting investors first. As I prepare to retire after nearly forty years as a securities market regulator, I remain confident that an industrywide commitment to putting investors first is key to maintaining investor confidence in our securities market. This commitment influenced the steps FINRA has taken to close gaps in regulation, enhance market transparency and tackle fraud—and continues to influence the work FINRA does every day.

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, 2015, FINRA oversaw nearly 4,000 brokerage firms, approximately 162,700 branch offices and more than 643,000 registered securities representatives.

We regulate the activities of the U.S. securities industry and perform market regulation pursuant to our own statutory responsibility and under contract for certain exchanges. Our statutory regulatory functions include onsite examinations of securities firms, continuous automated surveillance of markets, reviews of fraud allegations and disciplinary actions against firms and registered representatives. FINRA's examination process is risk-based, meaning our approach for identifying firms for examination is based upon risk, scale and scope of firm operations. We conduct examinations to determine whether firms are in compliance with federal securities law and FINRA rules, as well as in response to investor complaints, terminations of brokerage employees for cause, arbitrations and referrals from other regulators. FINRA operates unique equity and options cross-market surveillance programs. Employing advanced technology, these programs collect and integrate trading data across exchanges and alternative trading systems to detect trading patterns not previously visible. We provide a heightened and expedited review of allegations of serious fraud, a centralized point of contact internally and externally on fraud issues, and consolidate recognized expertise in expedited fraud detection and investigation to prevent further harm to investors. We bring disciplinary actions against firms and their employees that may result in sanctions including censures, fines, suspensions and, in egregious cases, expulsions or bars from the industry. In appropriate cases, we require firms and individuals to provide restitution to harmed investors and often impose other conditions on a firm's business to prevent repeated wrongdoing.

We perform market regulation under contract for the New York Stock Exchange LLC (NYSE), NYSE Arca, Inc. (NYSE Arca), NYSE MKT LLC (NYSE MKT), The Nasdaq Stock Market LLC (Nasdaq), Nasdaq BX, Inc. (Boston), Nasdaq PHLX LLC (Philadelphia), BATS Global Markets, Inc. (the BZX, BYZ, EDGA and EDGX exchanges, collectively referred to as BATS), the International Securities Exchange, LLC (ISE, ISE Gemini and ISE Mercury), the Chicago Board Options Exchange and the C2 Options Exchange (CBOE and C2), and other exchanges. Effective January 1, 2016, FINRA will no longer perform the surveillance, investigation and enforcement functions for the NYSE family of markets with respect to rules that are unique to the NYSE's markets; these functions will be performed by NYSE directly. We also regulate the over-the-counter (OTC) securities markets for listed and unlisted equities and the OTC markets for corporate bonds, asset-backed instruments, certain government agency instruments, municipal securities and other fixed income instruments.

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

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

Management Report on Financial Operations (continued)

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

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

With approximately 3,500 employees, we work 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 pursuant to statutory authority under the Securities Exchange Act. We use technology and data to improve the quality and effectiveness of our surveillance and examination programs, as well as our operating efficiency.

As noted in FINRA Chairman and CEO Rick Ketchum's letter (the CEO letter), FINRA's market surveillance systems process approximately 50 billion market events on average — and up to 75 billion market transactions — each day to closely monitor trading activity in equity, options and fixed income markets in the United States. Our cross-market equity surveillance program covers 99 percent of U.S.-listed equities markets, and our cross-market options surveillance covers 65 percent of the U.S.-listed options market. This expansion of our surveillance programs across different markets and products increases our ability to identify instances where a market participant engages in potentially abusive conduct on multiple markets in an attempt to avoid detection, as well as instances where a market participant engages in manipulative conduct across asset classes. We also conduct market surveillance for corporate bonds, asset-backed instruments, certain government agency issues, municipal securities and other fixed income instruments.

In 2015, FINRA brought 1,512 disciplinary actions against registered individuals and firms. As part of those disciplinary actions, we levied 691 fines totaling $93.8 million and ordered restitution of more than $96.6 million to harmed investors.

In 2015, we referred more than 900 potential fraud, manipulation and insider trading cases to the SEC and other federal or state law enforcement agencies for litigation and/or prosecution. We share information with other regulators to enable them to take actions that prevent further harm to investors.

This Management Report should be read in connection with the consolidated financial statements and accompanying notes included elsewhere in this Annual Financial Report. The 2015 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, 2015 and 2014, FINRA's primary consolidated subsidiaries are FINRA Regulation, Inc. and the Foundation.

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

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

Management Report on Financial Operations (continued)

SUMMARY OF OPERATIONS

The following table provides a summary of our operations for the two years ended December 31, 2015.

	Years Ended December 31,	
	2015	2014
	(in millions)	
Net revenues	$ 992.5	$ 996.6
Total expenses	(1,038.1)	(964.8)
Interest and dividend income	28.2	26.0
Operating (loss) income	(17.4)	57.8
Net realized and unrealized investment (losses) gains	(7.4)	34.6
Equity (losses) earnings from other investments	(13.5)	37.8
Other expense	(1.2)	(1.2)
Net (loss) income	$ (39.5)	$ 129.0

For the year, we operated at a loss of $39.5 million versus $129 million of net income in 2014. The change is primarily related to three areas: portfolio returns, fines and expenses. Portfolio returns, although slightly positive and in line with benchmarks, were down $91.1 million. Year over year, fines were down $38.8 million. Expenses increased $73.3 million, of which $25.8 million was supported by incremental revenues with our expansion into options surveillance. The remaining increase of $47.5 million, less than five percent year over year, was driven by planned investments in cloud migration, which will generate cost savings in future years, our BrokerCheck advertising campaigns and normal annual compensation increases.

Management Report on Financial Operations (continued)

BALANCE SHEET

Our focus is to ensure a strong balance sheet, so that we are financially positioned to respond to the regulatory needs of investors in today's continually evolving markets. To that effect, our balance sheet remains strong, with net assets of approximately $1.5 billion as of both December 31, 2015 and 2014. FINRA's working capital was $830.3 million as of December 31, 2015, and $856.6 million as of December 31, 2014. Our working capital and cash ratios were 2.45 and 2.18 as of December 31, 2015, compared to 2.32 and 2.06 as of December 31, 2014. The decrease in FINRA's working capital was driven by a rate decrease related to SEC fees and lower fines. The increase in the working capital and cash ratios were driven by a decrease in investments payable, which fluctuate year over year based on the timing and amount of pending investment activity.

Assets

FINRA had total assets of approximately $2.3 billion and $2.4 billion as of December 31, 2015 and 2014, including total cash and investments (as defined below) of approximately $2.0 billion and $2.1 billion as of December 31, 2015 and 2014. FINRA's total assets decreased $107.5 million or 4.5 percent in 2015 primarily due to decreases in cash and investments and receivables, offset by increases in property and equipment and other assets.

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

Cash and investments (cash, cash equivalents and trading, available-for-sale and other investments, including investments receivable), represent the largest portion of FINRA's total assets, approximately 87 percent as of December 31, 2015. Our primary market risk relates to our investment portfolio. Our investments are impacted by fluctuations in the securities markets and interest rates, as well as other financial and nonfinancial risks.

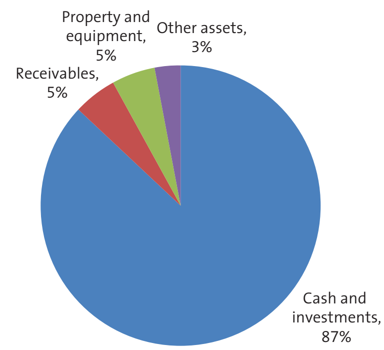
In 2015, the decrease in cash and investments was primarily driven by our pension plan contribution and decreases in fines and SEC fees received year over year, slightly offset by investment portfolio returns of 0.4 percent.

As of December 31, 2015, our portfolio exposures were as follows: bonds and cash, 54 percent; equities, 30 percent; alternatives, 12 percent; and real assets, 4 percent.

Our investment portfolio liquidity remains strong, with 58 percent available in 30 days or less as of December 31, 2015.

Receivables: Receivables, net of an allowance for uncollectible accounts, decreased as a result of the timing of invoices and payments related to our regulatory services agreements and an approximate 17 percent SEC fee rate decrease from December 31, 2014, to December 31, 2015.

ASSETS BY TYPE AS OF DECEMBER 31, 2015



Assets as of December 31, 2015 and 2014:

	2015	2014
	(in millions)	
Cash and investments	$1,976.4	$2,076.2
Receivables	123.5	139.4
Property and equipment	120.9	115.1
Other assets	56.8	54.4
Total assets	$2,277.6	$2,385.1

Assets (continued)

Property and equipment: Property and equipment, net of accumulated depreciation and amortization, increased as a result of the purchase of the Omega Building in Rockville, Maryland, offset by asset retirements and depreciation.

Other assets: Other assets, which consist primarily of prepaid expenses, intangible assets and accrued interest related to our investments increased slightly year over year.

Liabilities

FINRA's total liabilities decreased $83.4 million or 9.2 percent, driven by decreases in pension and other postretirement liabilities, SEC fee payable, deferred revenues and investments payable, partially offset by an increase in accrued personnel and benefit costs and other liabilities.

Pension and other postretirement: Pension and other postretirement (retiree medical) benefit costs represent a significant liability to FINRA in terms of both the assumptions used to estimate the liability and its portion of FINRA's total liabilities, 24 percent as of December 31, 2015.

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

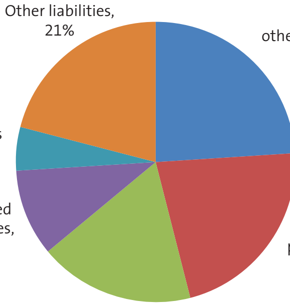
The increase in our pension plan discount rate from 4.2 percent as of December 31, 2014, to 4.5 percent as of December 31, 2015, was the primary reason for the decrease in pension and retiree medical liabilities and the corresponding increase in equity related to our pension and retiree medical plans.

The actuarial assumptions that we use in determining pension and retiree medical liabilities and expenses may differ materially from actual results due to changing market and economic conditions, as well as early withdrawals by terminating plan participants. While we believe that the assumptions used are appropriate, differences in actual experience or changes in assumptions may materially affect our financial position or results of operations. A 25 basis-point increase (decrease) in the discount rate assumption as of December 31, 2015, would cause the pension projected benefit obligation to decrease (increase) by approximately $17.8 million. A 25 basis-point increase (decrease) in the discount rate assumption as of December 31, 2014, would have caused the 2015 pension net periodic benefit cost to decrease (increase) by approximately $1.9 million. Related to retiree medical liabilities and expenses, a 25 basis-point increase (decrease) in the discount rate assumption would not have a material impact on the projected benefit obligation or net periodic benefit cost.

The pension plan's funding policy is to fund at least 100 percent of the pension plan's funding target liability as set forth by the Internal Revenue Service. We contributed $50.0 million to the pension plan in 2015.

As of December 31, 2015, our pension plan investment portfolio exposures were as follows: equities, 45 percent; bonds and cash, 44 percent; and alternatives, 11 percent.

LIABILITIES BY TYPE AS OF DECEMBER 31, 2015



Liabilities as of December 31, 2015 and 2014:

	2015	2014
	(in millions)	
Pension and other postretirement	$200.6	$224.0
Accrued personnel and benefit costs	184.1	175.5
SEC fee payable	145.3	173.8
Deferred revenues	81.4	85.1
Investments payable	39.5	87.1
Other	176.4	165.2
Total liabilities	$827.3	$910.7

Liabilities (continued)

Pension and other postretirement (continued): Since 2011, FINRA has offered a defined contribution component to the savings plan to all new hires, in lieu of the pension plan. Also included in this plan are pension plan participants who elected to participate in the defined contribution component instead of the pension plan during 2011. As of December 31, 2015, approximately 45 percent of FINRA's employees participated in the defined contribution component to the savings plan, which, in the long-term, will limit our exposure to market fluctuations as funding is based on age, years of service and base compensation.

Accrued personnel and benefit costs: Accrued personnel and benefit costs increased primarily due to the additional headcount related to the CBOE and C2 regulatory services agreement.

SEC fee payable: Our SEC fee payable decreased due to a rate decrease from $22.10 to $18.40 per million dollars in transactions. We remit these SEC fees to the U.S. Treasury semiannually, in March and September.

Deferred revenues: Deferred revenues represent cash received for which we have not yet provided the related services, including the unearned portion of mediation, arbitration, registration and firm application fees. Deferred revenues remained relatively flat year over year.

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

Other liabilities: Other liabilities consist primarily of accounts payable and accrued expenses; Central Registration Depository (CRD®) system balances; Investment Adviser Registration Depository (IARD™) program surplus; deferred rental concessions; and long-term debt. Other liabilities increased due to the unsecured term loan related to the purchase of the Omega Building.

Management Report on Financial Operations (continued)

STATEMENT OF OPERATIONS

Revenues

Overall, revenues for 2015 were essentially flat compared to 2014, as increases in regulatory, user, contract services and dispute resolution revenues were offset by decreases in transparency services, fines and other revenues.

Regulatory revenues: Regulatory revenues, including the Trading Activity Fee, Gross Income Assessment, Personnel Assessment and Branch Office Assessment, are FINRA's primary source of revenue, representing 45 percent of revenues in 2015. These revenues are used to fund FINRA's regulatory activities, including examinations and surveillance; financial monitoring; and FINRA's policymaking, rulemaking and enforcement activities. FINRA issued a $20 million discretionary rebate to firms in 2014. No rebate was issued in 2015, which drove the increase in regulatory revenues year over year.

User revenues: User revenues consist of initial and annual registrations, qualification examinations, FINRA-sponsored educational programs and conferences, reviews of advertisements, corporate filings (corporate financing fees) and disclosures. User revenues were relatively flat year over year, as a decrease in corporate financing fees, driven by a decrease in filings, was offset by an increase in disclosure review fees as a result of the CRD Public Records Validation Initiative.

Contract services revenues: Contract services revenues represent amounts charged for regulatory services provided, including surveillance reviews, investigations, examinations and the disciplinary process, as well as fees for the mortgage licensing system FINRA developed and deployed to SRR. Contract services revenues increased due to our regulatory services agreement with CBOE and C2, effective January 1, 2015.

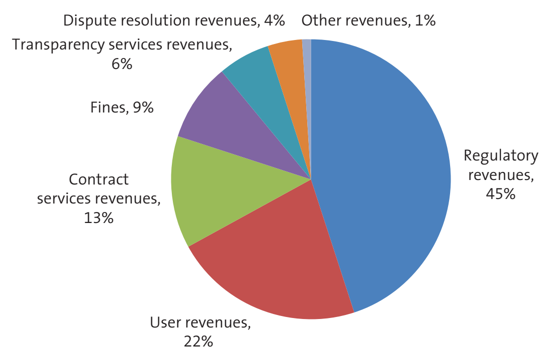
Transparency services revenues: Transparency services revenues represent fees charged for the use of TRACE and the Alternative Display Facility® (ADF®), as well as fees charged for our ORF service for the reporting of trades and comparison in certain OTC equity securities. Transparency services revenues decreased due to the lack of an active ADF participant starting in February 2015.

Dispute resolution revenues: Dispute resolution revenues consist of fees earned during the arbitration and mediation processes. Dispute resolution revenues increased slightly year over year.

Other revenues: Other revenues represent royalties and the recognition of deferred contribution revenue attributable to the Foundation's use of funds received from the Global Research Analyst Settlement (the GRA Settlement), which is recognized as grant payments are made or expenses are incurred against those funds. The GRA settlement funds were fully expended in April 2015, which drove the decline in other revenue.

Fines: While the number of monetary sanctions increased seven percent from 645 in 2014 to 691 in 2015, total fines decreased year over year. However, disgorgements increased from $1.8 million in 2014 to $2.8 million in 2015. The use of fine monies is limited to capital expenditures and regulatory projects, such as our migration of market regulation to a cloud-based platform, and other projects as appropriate, which are reported to and approved by our Board of Governors.

REVENUES BY TYPE - 2015



Components of total revenue in 2015 and 2014:

	2015	2014
	(in millions)	
Regulatory revenues	$444.9	$428.1
User revenues	218.1	216.3
Contract services revenues	125.5	104.7
Transparency services revenues	63.8	67.9
Dispute resolution revenues	41.0	37.5
Other revenues	5.4	9.5
Total operating revenues	898.7	864.0
Fines	93.8	132.6
Total revenues	$992.5	$996.6

Management Report on Financial Operations (continued)

Expenses

Expenses for 2015 increased $73.3 million or 7.6 percent compared to 2014, driven primarily by increases in compensation and benefits, professional and contract services, and computer operations and data communications.

Compensation and benefits: FINRA is largely a service organization. Our expenses are driven by employee-related costs, as we seek to attract, develop and retain a diverse group of talented staff, particularly in the highly specialized areas of regulation and technology, to enable FINRA to carry out its regulatory mandate in today's ever-changing markets. Employee compensation and benefits are FINRA's largest expense, representing 66 percent of total expenses in 2015. FINRA had approximately 3,500 and 3,400 employees as of December 31, 2015 and 2014.

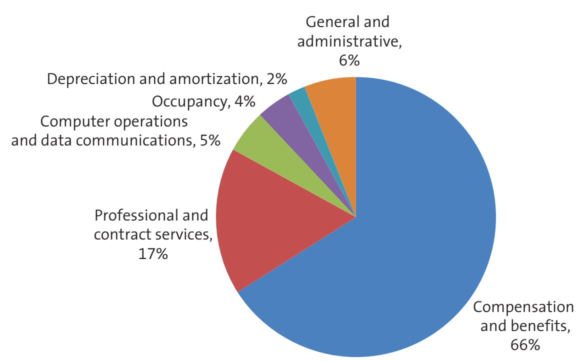
The increase in compensation and benefits was driven by additional headcount related to the CBOE and C2 regulatory services agreement, as well as annual increases related to employee merit, promotion, equity and incentive compensation, which average between three and four percent.

Professional and contract services: Professional and contract services increased due to enhancement efforts and our advertising campaigns in 2015. Enhancement efforts were driven by FINRA's use of outside contractors to implement market regulation applications using cloud technologies in order to contain escalating platform costs and improve operational efficiency. Additionally, FINRA launched two five-week advertising campaigns designed to promote BrokerCheck as a useful free tool to obtain information about brokers and firms. The BrokerCheck campaign was financed by a portion of fines FINRA received in 2014.

Computer operations and data communications: The increase in computer operations and data communications was driven by our continued use of cloud computing services under our enterprise customer agreement with a third-party vendor. During the year, FINRA continued its cloud migration efforts to more efficiently store and process data. While there are initial cash outlays associated with the migration, the move is expected to ultimately save FINRA between $10 million and $20 million annually, with initial savings beginning in 2016.

All other expenses: Occupancy charges, depreciation and amortization, and general and administrative expenses were all relatively flat year over year.

EXPENSES BY TYPE - 2015



Components of total expenses in 2015 and 2014:

	2015	2014
	(in millions)	
Compensation and benefits	$ 688.7	$652.5
Professional and contract services	176.0	148.6
Computer operations and data communications	50.5	40.6
Occupancy	37.5	37.5
Depreciation and amortization	25.1	28.8
General and administrative	60.3	56.8
Total expenses	$1,038.1	$964.8

Investment Income and Other Expense

Traditionally, FINRA has relied on investment returns to provide financial resources to supplement operating results. FINRA had portfolio returns of 0.4 percent in 2015 compared to 5.8 percent in 2014.

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

Net realized and unrealized investment (losses) gains: Net realized and unrealized investment losses in 2015 were primarily driven by the performance of our fixed income and equity portfolios.

Equity (losses) earnings from other investments: The equity losses in 2015 were driven by the performance of our broadly diversified multi-asset fund.

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

Components of investment income and other expense in 2015 and 2014:

	2015	2014
	(in millions)	
Interest and dividend income	$ 28.2	$26.0
Net realized and unrealized investment (losses) gains	(7.4)	34.6
Equity (losses) earnings from other investments	(13.5)	37.8
Other expense	(1.2)	(1.2)
Total investment income and other expense	$ 6.1	$97.2

CONCLUSION

As noted in the CEO letter, FINRA's financial position remains strong and highly liquid. Management believes that we have sufficient liquidity and working capital to meet current and future operating requirements, from our continued investment in innovative technology, such as cloud computing, to expanding investor protection through cross-market, cross-product and options surveiliances. We will continue to monitor the changing economic conditions and evaluate their potential impact on our organization, as well as evaluate cost-savings initiatives and review our fee structure to ensure our strong financial position without compromising our regulatory mission.

Management Report on Internal Control Over Financial Reporting

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

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

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

Under the supervision of the Chairman and Chief Executive Officer and the Chief Financial Officer, FINRA's management assessed the effectiveness of FINRA's internal control over financial reporting as of December 31, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control–Integrated Framework* (2013 framework). This evaluation included reviews of the documentation of controls, evaluations of the design effectiveness of controls, tests of the operating effectiveness of controls and a conclusion on management's evaluation. Based on this assessment, we assert that FINRA maintained effective internal control over financial reporting as of December 31, 2015.

FINRA's consolidated financial statements included in this annual report have been audited by Ernst & Young LLP (EY), an independent registered public accounting firm. EY has also issued an attestation report on FINRA's internal control over financial reporting as of December 31, 2015.

June 30, 2016

Richard G. Ketchum
Chairman and Chief Executive Officer

Todd T. Diganci
Executive Vice President and Chief Financial Officer

Audit Committee Report

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

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

During 2015, the Audit Committee met eight times.

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

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

Independent Registered Public Accountant (IRPA) Fees

	FINRA	
	2015	2014
Audit services (1)	$1,053,995	$1,052,675
Audit-related services (2)	260,800	289,800
Tax services (3)	133,517	142,922
All other services (4)	—	35,000
Total	$1,448,312	$1,520,397

(1) For 2015 and 2014, audit services represent the consolidated financial statement audit and the attestation on internal control.

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

(3) Tax services represent fees related to tax return preparation and review services in connection with the 2015 and 2014 Form 990s and related Form 990–Ts, as well as tax compliance, advice and planning.

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

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

Audit Committee Report (continued)

December 31, 2015; management's assessment of the effectiveness of FINRA's internal control over financial reporting; and EY's report on the consolidated financial statements and on FINRA's internal control over financial reporting. Based on those discussions, the Audit Committee recommended to the Board that FINRA's audited consolidated financial statements and related reports on internal control be included in the Annual Report for the year ended December 31, 2015.

Members of the Audit Committee:

Carol Anthony (John) Davidson, Chair
John W. Schmidlin
Leslie F. Seidman
John W. Thiel

June 30, 2016

Investment Committee Report

Year Ended December 31, 2015

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

FINRA's portfolio earned 0.4 percent in 2015, including returns from its cash operating fund. Overall, 2015 was a volatile year in which few traditional assets met their return expectations. U.S. equities and bonds struggled in 2015 as concerns over China, lower commodity prices, and fears of a global slowdown reduced investor appetite for risk. Emerging markets and commodities sustained significant losses in 2015, with the MSCI EM Index down 14.7 percent and the Bloomberg Commodity Index down 24.7 percent. The chart below shows investment results for FINRA and for several common market benchmarks. As of December 31, 2015, FINRA's investment portfolio, including cash, totaled approximately $1.7 billion. Portfolio liquidity remains strong, with $1.0 billion, or 58 percent, available in 30 days or less as of December 31, 2015.

		Annualized Returns		
	2015	3-Year	5-Year	Inception (1)
FINRA	0.4%	3.9%	4.2%	3.3%
U.S. Consumer Price Index	0.7%	1.0%	1.5%	2.1%
Barclays U.S. Aggregate	0.5%	1.4%	3.2%	4.3%
MSCI ACWI (2)	–1.8%	8.3%	6.7%	6.6%

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

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

The FINRA Board is responsible for FINRA's investments and approved the charter that guides the FINRA Investment Committee. The Investment Committee, which is composed of members of the Board and other investment professionals, advises the Board and provides guidance in determining the appropriate policy, guidelines and allocation for FINRA's investments. The FINRA Investment Office is responsible for management of the investments within the framework of the investment policy. FINRA engages investment consultants to support the Investment Office as needed. The Investment Committee met five times during 2015.

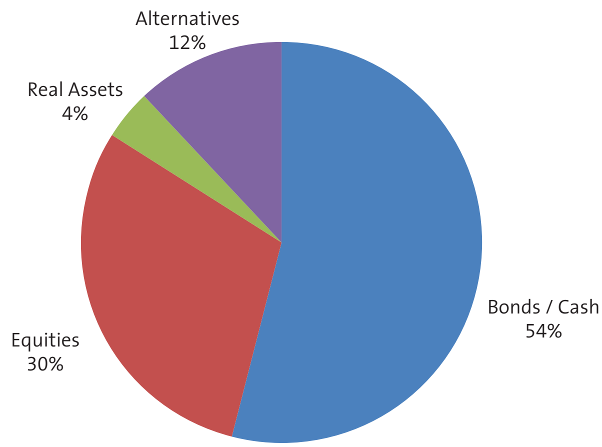
FINRA operates under a low volatility strategy with the objective of creating a lower-risk portfolio than a traditional 60 percent stock/40 percent bond allocation. FINRA's limited-partnership agreement with HighVista II Limited Partnership, a broadly diversified multi-asset fund managed by HighVista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

* For the purposes of this Investment Committee report, FINRA's investment portfolio includes the Foundation's investments and investments net of their related receivables and payables on the consolidated balance sheet, and excludes 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, 2015. Market exposures are 54 percent bonds/cash and 30 percent equities. Alternatives, at 12 percent, consist of non-correlated exposures. Real assets, at 4 percent, comprise investments in real estate, commodities and Treasury Inflation-Protected Securities (TIPS).

Exposures as of December 31, 2015



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

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

Members of the Investment Committee:

John J. Brennan, Chair
Richard J. Flannery
William H. Heyman
Charles I. Plosser
Richard C. Romano
Luis M. Viceira

June 30, 2016

Management Compensation Committee Report

Year Ended December 31, 2015

FINRA Compensation Philosophy

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

Benchmarking

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

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

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

Executive Compensation

The Management Compensation Committee (the Committee), which is composed solely of public members of the Board of Governors (Board), is responsible for approving salary levels and incentive compensation ranges for top-level executives. The Committee determines the incentive compensation awards based on actual performance. In determining salary and incentive compensation, management and the Committee consider operational, strategic and financial factors in addition to individual performance. The salary and incentive compensation recommendations for the CEO are reviewed and approved by the Board annually. The Committee met eight times during 2015.

The Committee has the sole right and responsibility to hire and terminate a compensation consultant. In 2015, as in past years, the Committee engaged Mercer, Inc. (Mercer), an independent third-party compensation consultant, to prepare a compensation study, which included objective analysis of current compensation levels and benchmarking using information from a comparable segment of the market for key executives. To ensure the independence of Mercer:

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

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

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

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

*Mercer is a wholly owned subsidiary of Marsh & McLennan Companies, a global professional services firm, as is Marsh USA (Marsh), both of which provide financial and professional insurance brokerage services to FINRA. Fees paid to Marsh for these services are reasonable and in line with industry standards. Through an affinity program with FINRA, Mercer is available to provide FINRA members with insurance products at the option of the FINRA member. FINRA receives a royalty fee from Mercer for products sold to FINRA members, which is used to support the FINRA Investor Education Foundation (the Foundation) to assist the Foundation's mission of providing underserved Americans with the knowledge, skills and tools necessary for financial success throughout life. Royalty fees of $1.2 million and $1.3 million were received and used to support the Foundation during 2015 and 2014.

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

Summary Compensation Table

The following table presents actual 2015 and 2014 compensation data in the year paid (all amounts are in dollars). The 2016 salary information represents the base annual salary at which the top ten executives as of June 30, 2016, are compensated. It does not represent 2016 year-to-date earnings. The 2016 incentive compensation amounts represent the actual payment in February 2016 based on 2015 performance. Other amounts, including deferred compensation and other benefits, are not presented for 2016 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 2015 Form 990 tax returns.

Name and principal position		Salary (1)	Incentive compensation (2)	Deferred compensation (3)	Other benefits (4)	Total
Richard G. Ketchum	2016	1,000,000	1,500,000	*	*	2,500,000
Chairman and Chief Executive Officer	2015	1,000,000	1,500,000	370,154	43,789	2,913,943
	2014	1,000,000	1,500,000	361,408	32,420	2,893,828
Todd T. Diganci	2016	600,000	750,000	*	*	1,350,000
EVP and Chief Financial Officer	2015	550,000	700,000	92,844	29,037	1,371,881
	2014	544,231	680,000	40,686	23,852	1,288,769
Steven J. Randich	2016	500,000	575,000	*	*	1,075,000
EVP and Chief Information Officer	2015	500,000	565,000	161,411	32,788	1,259,199
	2014	500,000	525,000	141,002	36,111	1,202,113
Robert L. D. Colby	2016	500,000	525,000	*	*	1,025,000
EVP and Chief Legal Officer	2015	500,000	525,000	159,153	21,812	1,205,965
	2014	500,000	510,000	139,355	18,511	1,167,866
Susan F. Axelrod	2016	450,000	500,000	*	*	950,000
EVP, Regulatory Operations	2015	450,000	500,000	132,930	45,793	1,128,723
	2014	447,115	475,000	128,527	45,088	1,095,730
Thomas R. Gira	2016	450,000	500,000	*	*	950,000
EVP, Market Regulation	2015	425,000	500,000	57,416	30,584	1,013,000
	2014	422,115	475,000	81,964	39,654	1,018,733
J. Bradley Bennett	2016	435,000	500,000	*	*	935,000
EVP, Enforcement	2015	435,000	490,000	126,565	12,857	1,064,422
	2014	435,000	490,000	122,758	8,938	1,056,696
Steven A. Joachim	2016	400,000	475,000	*	*	875,000
EVP, Transparency Services	2015	400,000	475,000	154,865	51,087	1,080,952
	2014	396,538	450,000	64,761	47,426	958,725
F. Gregory Ahern	2016	400,000	410,000	*	*	810,000
EVP, Corporate Communications and	2015	400,000	410,000	118,621	44,654	973,275
Government Relations	2014	400,000	400,000	122,916	35,474	958,390
Cameron K. Funkhouser	2016	375,000	435,000	*	*	810,000
EVP, Office of Fraud Detection	2015	375,000	420,000	53,496	36,792	885,288
and Market Intelligence	2014	372,115	390,000	70,337	27,409	859,861

* 2016 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.

Management Compensation Committee Report (continued)

1 Salary is paid bi-weekly, one week in arrears. 2016 salary information represents the executives' current base annual rate of pay as of June 30, 2016.

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 2016 was paid in February 2016, based on 2015 performance.

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

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

Components of Compensation

Direct Compensation

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

Indirect Compensation

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

Members of the Management Compensation Committee:

William H. Heyman, Chair
Carol Anthony (John) Davidson
Shelly Lazarus
Randal K. Quarles

June 30, 2016

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

Board of Governors of

Financial Industry Regulatory Authority, Inc.

We have audited the Financial Industry Regulatory Authority, Inc.'s (FINRA) internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). FINRA's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, FINRA maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, 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, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for the years then ended and our report dated June 30, 2016 expressed an unqualified opinion thereon.

Ernst + Young LLP

McLean, Virginia
June 30, 2016

Report of Independent Registered Public Accounting Firm

Board of Governors of

Financial Industry Regulatory Authority, Inc.

We have audited the accompanying consolidated balance sheets of the Financial Industry Regulatory Authority, Inc. (FINRA) as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of FINRA at December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), FINRA's internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated June 30, 2016 expressed an unqualified opinion thereon.

Ernst + Young LLP

McLean, Virginia
June 30, 2016

FINRA Consolidated Balance Sheets

(In millions)

	December 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 319.1	$ 480.3
Investments:		
Trading, at fair value	873.8	821.3
Available-for-sale, at fair value	7.2	7.2
Foundation available-for-sale, at fair value	49.5	26.6
Receivables, net	123.5	139.4
Investments receivable	3.4	3.5
Other current assets	27.2	25.8
Total current assets	1,403.7	1,504.1
Property and equipment:		
Land, buildings and improvements	145.9	121.0
Data-processing equipment and software	247.8	256.1
Furniture, equipment and leasehold improvements	104.5	120.0
	498.2	497.1
Less accumulated depreciation and amortization	(377.3)	(382.0)
Total property and equipment, net	120.9	115.1
Goodwill and other intangible assets, net	24.1	23.6
Other investments	723.4	737.3
Other assets	5.5	5.0
Total assets	$2,277.6	$2,385.1

See accompanying notes.

FINRA Consolidated Balance Sheets (continued)

(In millions)

	December 31,	
	2015	2014
Liabilities and equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 49.5	$ 34.3
Accrued personnel and benefit costs	192.6	183.7
Deferred revenue	68.6	70.1
Deferred contribution income	—	2.4
Deposits and renewals	71.4	89.9
Investments payable	39.5	87.1
Other current liabilities	6.5	6.2
SEC fee payable	145.3	173.8
Total current liabilities	573.4	647.5
Accrued pension and other postretirement benefit costs	192.1	215.8
Deferred revenue	12.8	12.6
Long-term debt	17.3	—
Other liabilities	31.7	34.8
Total liabilities	827.3	910.7
Equity	1,576.0	1,615.5
Accumulated other comprehensive income (loss)		
Unrealized gain on available-for-sale investments	0.1	3.2
Net unrecognized employee benefit plan amounts	(125.8)	(144.3)
Total accumulated other comprehensive loss	(125.7)	(141.1)
Total equity	1,450.3	1,474.4
Total liabilities and equity	$2,277.6	$2,385.1

See accompanying notes.

FINRA Consolidated Statements of Operations

(In millions)

	Years Ended December 31,	
	2015	2014
Revenues		
Operating revenues		
Regulatory revenues, net of firm rebates of $0 in 2015 and $20.0 in 2014	$ 444.9	$ 428.1
User revenues	218.1	216.3
Contract services revenues	125.5	104.7
Transparency services revenues	63.8	67.9
Dispute resolution revenues	41.0	37.5
Other revenues	5.4	9.5
Total operating revenues	898.7	864.0
Fines	93.8	132.6
Activity assessment revenues	445.9	472.0
Total revenues	1,438.4	1,468.6
Activity assessment cost of revenues	(445.9)	(472.0)
Net revenues	992.5	996.6
Expenses		
Compensation and benefits	688.7	652.5
Professional and contract services	176.0	148.6
Computer operations and data communications	50.5	40.6
Occupancy	37.5	37.5
Depreciation and amortization	25.1	28.8
General and administrative	60.3	56.8
Total expenses	1,038.1	964.8
Interest and dividend income	28.2	26.0
Operating (loss) income	(17.4)	57.8
Other (expense) income		
Net realized and unrealized investment (losses) gains	(7.4)	34.6
Equity (losses) earnings from other investments	(13.5)	37.8
Other expense	(1.2)	(1.2)
Net (loss) income	$ (39.5)	$ 129.0

See accompanying notes.

FINRA Consolidated Statements of Comprehensive Income (Loss)

(In millions)

	Years Ended December 31,	
	2015	2014
Net (loss) income	$(39.5)	$129.0
Change in unrealized gain or loss on available-for-sale investments	(3.1)	—
Employee benefit plan adjustments	18.5	(67.4)
Comprehensive (loss) income	$(24.1)	$ 61.6

See accompanying notes.

FINRA Consolidated Statements of Changes in Equity

(In millions)

		Accumulated Other Comprehensive Income (Loss)		
	Equity	Unrealized Gain on Available-for-Sale Investments	Net Unrecognized Employee Benefit Plan Amounts	Total
Balance, January 1, 2014	$1,486.5	$ 3.2	$ (76.9)	$1,412.8
Comprehensive income	129.0	—	(67.4)	61.6
Balance, December 31, 2014	1,615.5	3.2	(144.3)	1,474.4
Comprehensive loss	(39.5)	(3.1)	18.5	(24.1)
Balance, December 31, 2015	$1,576.0	$ 0.1	$(125.8)	$1,450.3

See accompanying notes.

FINRA Consolidated Statements of Cash Flows

(In millions)

	Years Ended December 31,	
	2015	2014
Reconciliation of net (loss) income to cash (used in) provided by operating activities		
Net (loss) income	$(39.5)	$129.0
Adjustments to reconcile net (loss) income to cash (used in) provided by operating activities:		
Depreciation and amortization	25.1	28.8
Net realized and unrealized investment losses (gains)	7.4	(34.6)
Distributed and undistributed equity returns from other investments	13.5	62.2
Bad debt expense	3.4	4.0
Net change in operating assets and liabilities, net of acquisitions and dispositions:		
Receivables, net	12.5	(36.4)
Other current assets	2.0	4.9
Other assets	(4.8)	3.3
Accounts payable and accrued expenses	15.1	2.1
Accrued personnel and benefit costs	8.9	(8.2)
Deferred revenue	(1.3)	(3.0)
Deferred contribution income	(2.4)	(7.2)
Deposits and renewals	(18.5)	5.6
SEC fee payable	(28.5)	57.0
Other current liabilities	0.3	0.9
Accrued pension and other postretirement benefit costs	(5.2)	11.8
Other liabilities	(3.1)	4.5
Net cash (used in) provided by operating activities	$(15.1)	$224.7

See accompanying notes.

FINRA Consolidated Statements of Cash Flows (continued)

(In millions)

	Years Ended December 31,	
	2015	2014
Cash flow from investing activities		
Net purchases of trading securities	$(121.3)	$(115.3)
Proceeds from redemptions of available-for-sale investments	39.7	11.1
Purchases of available-for-sale investments	(51.7)	(2.4)
Return of capital and proceeds from redemptions from other investments	0.3	0.3
Real estate acquisition	(18.1)	—
Net purchases of property and equipment	(8.9)	(7.7)
Net cash used in investing activities	(160.0)	(114.0)
Cash flow from financing activities		
Change in donor-restricted and other restricted cash	(3.4)	(7.0)
Proceeds from borrowing on long-term debt	18.0	—
Principal payment on long-term debt	(0.7)	—
Net cash provided by (used in) financing activities	13.9	(7.0)
(Decrease) increase in cash and cash equivalents	(161.2)	103.7
Cash and cash equivalents at beginning of year	480.3	376.6
Cash and cash equivalents at end of year	$ 319.1	$ 480.3

See accompanying notes.

FINRA 2015 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) and FINRA Investor Education Foundation (the Foundation). The Foundation is a tax-exempt membership corporation incorporated in the State of Delaware, with FINRA as the sole member.

We are the largest independent regulator of securities firms doing business with the public in the United States. We regulate the activities of the U.S. securities industry and perform market regulation pursuant to our own statutory responsibility and under contract for certain exchanges. Our statutory regulatory functions include onsite examinations of securities firms, continuous automated surveillance of markets, reviews of fraud allegations and disciplinary actions against firms and registered representatives. FINRA's examination process is risk-based, meaning our approach for identifying firms for examination is based upon risk, scale and scope of firm operations. We conduct examinations to determine whether firms are in compliance with federal securities law and FINRA rules, as well as in response to investor complaints, terminations of brokerage employees for cause, arbitrations and referrals from other regulators. FINRA operates unique equity and options cross-market surveillance programs. Employing advanced technology, these programs collect and integrate trading data across exchanges and alternative trading systems to detect trading patterns not previously visible. We provide a heightened and expedited review of allegations of serious fraud, a centralized point of contact internally and externally on fraud issues, and consolidate recognized expertise in expedited fraud detection and investigation to prevent further harm to investors. We bring disciplinary actions against firms and their employees that may result in sanctions including censures, fines, suspensions and, in egregious cases, expulsions or bars from the industry. In appropriate cases, we require firms and individuals to provide restitution to harmed investors and often impose other conditions on a firm's business to prevent repeated wrongdoing.

We perform market regulation under contract for the New York Stock Exchange LLC (NYSE), NYSE Arca, Inc. (NYSE Arca), NYSE MKT LLC (NYSE MKT), The Nasdaq Stock Market LLC (Nasdaq), Nasdaq BX, Inc. (Boston), Nasdaq PHLX LLC (Philadelphia), BATS Global Markets, Inc. (the BZX, BYZ, EDGA and EDGX exchanges, collectively referred to as BATS), the International Securities Exchange, LLC (ISE, ISE Gemini and ISE Mercury), the Chicago Board Options Exchange and the C2 Options Exchange (CBOE and C2), and other exchanges. Effective January 1, 2016, FINRA will no longer perform the surveillance, investigation and enforcement functions for the NYSE family of markets with respect to rules that are unique to the NYSE's markets; these functions will be performed by NYSE directly. We also regulate the over-the-counter (OTC) securities markets for listed and unlisted equities and the OTC markets for corporate bonds, asset-backed instruments, certain government agency instruments, municipal securities and other fixed income instruments.

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

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

We are committed to ensuring that investors and market participants have access to market information so they can more effectively assess securities prices and valuations through the management and operation of FINRA's OTC market

1. ORGANIZATION AND NATURE OF OPERATIONS (CONTINUED)

transparency facilities. These facilities include the Trade Reporting and Compliance Engine (TRACE) for fixed income securities, the OTC Reporting Facility (ORF) for equity securities not listed on an exchange and the Trade Reporting Facilities (TRFs), operated in partnership with NYSE and Nasdaq, for OTC trading in equity securities that are listed on an exchange. In this capacity, we provide the public and professionals with timely quotes and trade information for equity and debt securities.

The Foundation provides underserved Americans with the knowledge, skills and tools necessary for financial success throughout life. The Foundation supports innovative research and educational projects aimed at segments of the investing public that 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 of investments, valuation of investments and assumptions related to our benefit plans, allowances for uncollectible accounts, and the estimated service periods related to our recognition of certain revenue, that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could materially differ from those estimates.

CASH AND CASH EQUIVALENTS

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

INVESTMENTS

Debt and Marketable Equity Securities

At the time of purchase, we classify individual securities as trading, available-for-sale or held-to-maturity based on the type of security and our intent and ability to sell or to hold the securities. We have designated our investments in debt and marketable equity securities as either trading or available-for-sale. Trading securities are carried at fair value, with changes in fair value recorded as a component of net realized and unrealized investment (losses) 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 (losses) as a separate component of other comprehensive income (loss).

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Investments

FINRA has residual investments in hedge funds, which we account for under the equity method. We are also a limited partner in a private investment fund, which we account for under the equity method. The application of the equity method to our investments in hedge funds and the private investment fund, including our related equity (losses) 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; Nasdaq; BATS; CBOE and C2; and other exchanges. The consolidated financial statements present receivables net of an allowance for uncollectible accounts. As of December 31, 2015 and 2014, an allowance for uncollectible accounts of $10.6 million and $11.4 million 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, 2015 and 2014, primarily relates to fines and arbitration activities. The allowance is increased by the provision for bad debts, which is charged against operating results and decreased by the amount of charge-offs, net of recoveries. We base the amount charged against operating results on several factors, including a periodic assessment of the collectibility of each account. In circumstances where a specific firm's inability to meet its financial obligations is known (*e.g.*, bankruptcy filings), we record a specific provision for bad debts to reduce the receivable to the amount we reasonably believe will be collected.

PROPERTY AND EQUIPMENT

FINRA records property and equipment at cost less accumulated depreciation. We expense repairs and maintenance costs as incurred. We calculate depreciation using the straight-line method over estimated useful lives ranging from 10 to 40 years for buildings and improvements, two to five years for data-processing equipment and software, and five to 10 years for furniture and equipment. We amortize leasehold improvements using the straight-line method over the term of the applicable lease, including any extension periods at our option. Depreciation and amortization expense for property and equipment, including amortization of capitalized software costs, totaled $21.1 million and $25.2 million for 2015 and 2014.

On January 22, 2015, FINRA purchased the building located at 15200 Omega Drive in Rockville, Maryland (the Omega Building), of which we previously leased approximately 65 percent of the office space. The Omega Building is located in the same office park as FINRA's corporate office in Rockville, Maryland. As a result of the purchase, FINRA eliminated future minimum lease payments of $11.5 million in total, $1.5 million of which related to the year ending December 31, 2015. The cash consideration paid by FINRA was approximately $18.1 million. The identifiable assets included land and a building with fair values of $5.8 million and $12.3 million, and are included in land, buildings and improvements in the consolidated balance sheet. In March 2015, we entered into an unsecured 2.99 percent fixed rate seven-year term loan in the amount of $18.0 million related to our purchase of the Omega Building.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SOFTWARE COSTS

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

The consolidated financial statements reflect unamortized, capitalized software development costs of $2.9 million and $8.0 million as of December 31, 2015 and 2014, within total property and equipment, net in the consolidated balance sheets. There were no net additions to capitalized software in 2015. Net additions to capitalized software were $1.0 million in 2014. Amortization of capitalized internal computer software costs totaled $4.6 million and $5.8 million for 2015 and 2014, and is included in depreciation and amortization in the consolidated statements of operations.

IMPAIRMENT OF LONG-LIVED ASSETS

We review our long-lived assets for impairment annually. In the event facts and circumstances indicate that long-lived assets or other assets may be impaired, we perform an evaluation of recoverability that compares the estimated future, undiscounted cash flows associated with the asset to the asset's carrying amount. If the evaluation fails the recoverability test, we would then prepare a discounted cash flow analysis to estimate fair value and the amount of any impairment. In 2015 and 2014, 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 mediation fees, arbitration fees, registration fees and firm application fees. We recognize revenue from the upfront initial components of these fees on a straight-line basis over estimated service periods. The estimated service periods for mediation fees, arbitration fees, registration fees and firm application fees, based on historical experience, are four months, 14 months, four years and 12 years, respectively.

GLOBAL RESEARCH ANALYST SETTLEMENT

On September 2, 2005, the Federal District Court for the Southern District of New York (the Court) issued an order (the Order) approving the SEC's new investor education plan, whereby a portion of funds collected in connection with the Global Research Analyst Settlement (the GRA Settlement) and earmarked by the Court for investor education, less expenses previously approved by the Court, were remitted to the Foundation and intended to be spent over ten years for programs consistent with the Foundation's overall mission. Pursuant to the final judgments against each of the defendants under the GRA Settlement, the Foundation received a total of $55.0 million. As of April 30, 2015, all such funds, including reinvested interest and dividend income, have been expended.

As disclosed in Note 1, the Foundation is a consolidated subsidiary of FINRA. At the consolidated level, FINRA presented 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 recognized the related revenue, net of interest and dividends earned on the funds, as the Foundation made grant payments and incurred expenses pursuant to the guidelines in the Order. For the periods ended December 31, 2015 and 2014, the Foundation incurred grant payments and expenses against the GRA Settlement funds of $2.4 million and $7.2 million.

Included in other current assets in the consolidated balance sheet as of December 31, 2014, were $3.2 million of funds from the GRA Settlement, including the interest earned on these funds. The GRA Settlement funds were included in other assets because their use was restricted to the Foundation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEPOSIT AND RENEWAL LIABILITIES

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

OTHER LIABILITIES

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

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

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

As of December 31, 2015 and 2014, FINRA recognized the cumulative surplus for the IARD program in its consolidated financial statements as follows:

	As of December 31,	
	2015	2014
	(in millions)	
Current deferred revenue	$ 3.5	$ 3.3
Non-current deferred revenue	0.2	0.3
Other long-term liabilities	12.2	11.6
Total	$15.9	$15.2

REVENUE RECOGNITION AND COST OF REVENUE

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

Regulatory Revenues

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

User Revenues

User revenues represent amounts charged for initial and annual registrations, qualification examinations, FINRA-sponsored educational programs and conferences, reviews of advertisements, corporate filings (corporate financing fees) and disclosures. FINRA charges registration fees for all registered representatives and investment advisers. First-year registration and application fees consist of two deliverables that we account for as separate units of accounting: upfront registration delivered at inception and an ongoing service obligation for the remainder of that calendar year. We allocate arrangement consideration to upfront registrations based on our estimates of selling price. We estimate the selling prices of upfront registrations based on our internal cost structure, pricing practices and objectives, and historical prices. We allocate arrangement consideration to the remaining service obligation based on vendor-specific objective evidence of the pricing for these services. Upfront registration revenue is recognized over the estimated service period for individual representatives (four years) and firms (12 years), while the remaining service obligation revenue is recognized ratably over the related remaining annual period. While the pricing model currently in use captures all critical variables, unforeseen changes due 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. FINRA requires the timely disclosure of regulatory actions, liens and judgments, among other things, and charges a fee to review the disclosures to determine whether an applicant is subject to a statutory disqualification or whether the applicant may present a regulatory risk for the firm and customers. FINRA recognizes these disclosure review fees when our review is completed.

Contract Services Revenues

Contract services revenues represent amounts charged for regulatory services provided primarily to the Nasdaq family of markets, the NYSE family of markets, CBOE and C2, the BATS family of markets and other exchanges, as well as the TRFs, for services including surveillance reviews, investigations, examinations and the disciplinary process. Contract services revenues also include fees for the mortgage licensing system FINRA developed and deployed to SRR. We recognize contract services revenues as the services are provided.

Transparency Services Revenues

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dispute Resolution Revenues

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 revenues also include arbitrator and mediator application fees that are recognized as the service is provided.

Fines

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

Activity Assessment Revenues and Cost of Revenues

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

We recover the cost of the Section 31 fees and assessments through an activity assessment, charged to the firm responsible for clearing the transaction, based on the aggregate dollar amount of sales of covered securities transacted by or through any firm other than on a national securities exchange. The assessments billed to securities firms are recognized when the transactions are reported. As of December 31, 2015 and 2014, we had $37.6 million and $47.1 million of SEC fee receivables presented within receivables, net in the accompanying consolidated balance sheets. FINRA, as the primary obligor to the SEC, reports the activity assessment on a gross basis within revenues. Amounts due to the SEC are reported as a cost of revenue. We report amounts pending remittance to the SEC in SEC fee payable in the accompanying consolidated balance sheets.

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

Interest and Dividend Income

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

PENSION AND OTHER POSTRETIREMENT LIABILITIES

FINRA provides two non-contributory defined benefit pension plans for the benefit of eligible employees. The non-contributory defined benefit plans consist of a qualified Employees Retirement Plan (ERP) and a non-qualified Supplemental Executive Retirement Plan (SERP). Both plans are now closed to new participants. We also offer access to retiree medical coverage for eligible active employees, retirees and their dependents. Eligible retirees pay the full premium cost to be enrolled in the Company's retiree medical coverage. Additionally, we provide an employer-funded defined

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

INCOME TAXES

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

CONCENTRATION OF CREDIT RISK

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

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

We maintain a broadly diversified investment portfolio, representing a wide range of assets and asset classes, in order to attain acceptable levels of risk and return. Our investment portfolio, excluding Foundation investments, consists of investments in debt securities, equity securities and private investments. Our limited partnership investment represents approximately 44 percent of our total invested assets, excluding cash, as of December 31, 2015. The Foundation's investment portfolio consists of a mutual fund, a commingled fund and a private investment.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014–09, *Revenue from Contracts with Customers (Topic 606).* The ASU provides that a company recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Accordingly, companies will need to use more judgment and make more estimates which may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August 2015, the FASB issued ASU No. 2015–14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which deferred the effective date of the new standard by one year. The ASU is effective for FINRA on January 1, 2019; however, as a nonpublic entity, we may early adopt on January 1, 2018. We are currently assessing the potential impact that the ASU will have on our consolidated financial statements.

In May 2015, the FASB issued ASU No. 2015–07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) – a consensus of the FASB Emerging Issues Task Force*. This ASU removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share practical expedient, as well as removes the requirement to make certain disclosure for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The ASU is effective for FINRA on January 1, 2017, and the ASU is to be applied retrospectively to all periods presented. Early adoption is permitted. We have determined that the ASU does not have a material effect on our consolidated financial statements, and we have early adopted the ASU in the 2015 consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015–17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. The ASU requires companies to classify all deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. The ASU is effective for FINRA on January 1, 2018, and the ASU is to be applied either prospectively or retrospectively. Early adoption is permitted. We have determined that the ASU does not have a material effect on our consolidated financial statements, and we have early adopted the ASU prospectively in the 2015 consolidated financial statements.

In January 2016, the FASB issued ASU 2016–01, *Financial Instruments—Overall (Subtopic 825–10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU eliminates the available-for-sale classification of equity investments and requires entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income. The ASU is effective for FINRA on January 1, 2019. We are currently assessing the potential impact that the ASU will have on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016–02, *Leases*. The ASU requires lessees to put most leases on their balance sheets but recognize expenses on their statements of operation in a manner similar to today's accounting. The ASU also eliminates today's real estate-specific provisions for all entities. For lessors, the ASU modifies the classification criteria and the accounting for sales-type and direct financing leases. The ASU is effective for FINRA on January 1, 2020. Early adoption is permitted. We are currently assessing the potential impact that the ASU will have on our consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following accounting pronouncements were also recently issued:

- ASU No. 2014–15, *Presentation of Financial Statements—Going Concern (Subtopic 205–40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*;
- ASU No. 2015–02, *Consolidations (Topic 810): Amendments to the Consolidation Analysis*; and
- ASU No. 2015–05, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350–40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*.

We have assessed these pronouncements and determined that they do not have any material impact on our consolidated results of operations or financial position, and they will be adopted as of their future effective date.

3. DEFERRED REVENUE

The following is a summary of amounts that we included in current and non-current deferred revenue as of December 31, 2015, and the years over which we will recognize those amounts:

	Registration	Arbitration	Annual and Other	Total
		(in millions)		
Year ending December 31,				
2016	$ 7.2	$5.1	$56.3	$68.6
2017	5.3	—	—	5.3
2018	3.4	—	—	3.4
2019	1.5	—	—	1.5
2020 and thereafter	2.6	—	—	2.6
	$20.0	$5.1	$56.3	$81.4

The following is a summary of activity in our current and non-current deferred revenue for the periods ended December 31, 2015 and 2014, for all revenue arrangements. Annual and other revenue below primarily includes the GIA, PA, BOA and registered representative renewal fees. The additions reflect the fees charged during the period, while the amortization reflects the revenues recognized during the period based on the significant accounting policies described in Note 2:

	Registration	Arbitration	Annual and Other	Total
		(in millions)		
Balance as of January 1, 2015	$19.9	$ 5.0	$ 57.8	$ 82.7
Additions	9.0	8.9	331.0	348.9
Amortization	(8.9)	(8.8)	(332.5)	(350.2)
Balance as of December 31, 2015	$20.0	$ 5.1	$ 56.3	$ 81.4

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

4. INVESTMENTS

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

Our investment policy strives to preserve principal, in real terms, while seeking to earn a long-term rate of return commensurate with the degree of risk deemed appropriate by the Board. We execute our investment strategy through separately managed accounts and direct investments. During 2015, our active trading portfolio was managed by an investment manager, who has the authority to buy and sell investments within FINRA-determined, pre-established parameters. FINRA's investment portfolio consisted of the following as of:

	December 31,	
	2015	2014
	(in millions)	
Trading investments	$ 873.8	$ 821.3
Available-for-sale investments: FINRA	7.2	7.2
Available-for-sale investments: Foundation	49.5	26.6
Other investments:		
Equity method investments: FINRA	699.1	737.0
Equity method investments: Foundation	24.0	—
Cost method investments	0.3	0.3
Total other investments	723.4	737.3
Total	$1,653.9	$1,592.4

Trading Investments

Unrealized (loss) gain for the period on trading securities held at December 31, 2015 and 2014, was $(25.8) million and $26.4 million.

Available-for-Sale Investments

FINRA's available-for-sale investments consisted of the following:

	Amortized	Gross Unrealized		Fair
	Cost	Gain	Loss	Value
		(in millions)		
As of December 31, 2015:				
FINRA:				
Mutual fund	$ 7.0	$0.2	$ (—)	$ 7.2
Foundation:				
Mutual fund	$24.9	$ —	$ (—)	$24.9
Commingled fund	24.7	—	(0.1)	24.6
Total Foundation	$49.6	$ —	$(0.1)	$49.5
As of December 31, 2014:				
FINRA:				
Mutual fund	$ 6.8	$0.4	$ (—)	$ 7.2
Foundation:				
Mutual funds	$15.7	$0.1	$(0.1)	$15.7
Commingled fund	8.1	2.8	(—)	10.9
Total Foundation	$23.8	$2.9	$(0.1)	$26.6

4**. INVESTMENTS (CONTINUED)**

For 2015 and 2014, 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 (loss), are as follows:

	2015	2014
	(in millions)	
Gross investment gains recognized	$3.5	$0.8
Gross investment losses recognized	0.2	—
Amounts reclassified from accumulated other comprehensive income (loss)	2.8	0.7

Other-Than-Temporary Declines in Fair Value

In 2015 and 2014, we did not record any impairment charges related to our mutual and commingled funds. As of December 31, 2015 and 2014, we did not identify any events or circumstances that would indicate the value of our mutual and commingled funds should be impaired. Should there be any impairment charges related to other-than-temporary declines in the fair value of available-for-sale investments, they would be reflected in net realized and unrealized investment (losses) gains in the consolidated statements of operations.

Temporary Declines in Fair Value

As of December 31, 2015, the Foundation had one commingled fund with a fair value of $24.6 million, reflecting unrealized losses of $0.1 million less than six months in duration. As of December 31, 2014, the Foundation had one mutual fund with a fair value of $2.9 million, reflecting unrealized losses of $0.1 million less than six months in duration. As of December 31, 2015 and 2014, FINRA had no available-for-sale investments with aggregate unrealized losses.

Other Investments

We have an investment in one limited partnership. During 2015, FINRA assigned $25.0 million of its interest in this partnership to the Foundation as a part of a contribution to the Foundation. As of December 31, 2015, FINRA's and the Foundation's investments in the limited partnership were $698.8 million and $24.0 million. Additionally, FINRA has remaining interests in hedge funds accounted for under the equity method totaling $0.3 million as of December 31, 2015. These investments are included in other investments in the consolidated balance sheets.

The limited partnership investment, on a consolidated basis, 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. FINRA and the Foundation, as limited partners in a related party group, do not have the power to direct the activities of the partnership that most significantly impact the partnership's business, nor are we the party most closely associated with the partnership. Therefore, we are not the primary beneficiary and, accordingly, account for our interest under the equity method. Our equity in the earnings of the partnership is based on the partnership's reported net asset value (which approximates fair value). The partnership's net assets consist primarily of its investments accounted for at fair value; the majority of the partnership's fair value measurements are based on the estimates of the general partner. FINRA recognized equity losses from this partnership of $12.5 million in 2015 and equity earnings of $38.0 million in 2014. The Foundation recognized equity losses from this partnership of $1.0 million in 2015. Other than the assignment to the Foundation during 2015, FINRA did not make any contributions to or redemptions from this partnership during 2015 and 2014. The Foundation did not make any contributions to or redemptions from this partnership during 2015. The maximum exposure to loss related to this partnership for FINRA and the Foundation is limited to $698.8 million and $24.0 million, the carrying amounts of the 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 consolidated ownership interest in this partnership at December 31, 2015 and 2014, was 63.0 percent and 59.4 percent.

4. INVESTMENTS (CONTINUED)

We had an ownership interest in all equity method investments with total net assets of $7.5 billion and total losses from operations of $732.2 million as of and for the period ended December 31, 2015. Our weighted ownership interest in all equity method investees was 9.7 percent at December 31, 2015.

As of December 31, 2014, FINRA had investments accounted for under the equity method of $736.3 million in one limited partnership and $0.7 million in hedge funds. In 2014, we recognized equity earnings from equity method investments of $37.8 million. We had an ownership interest in all equity method investments with total net assets of $8.7 billion and total earnings from operations of $119.0 million as of and for the period ended December 31, 2014. Our weighted ownership interest in all equity method investees was 8.4 percent at December 31, 2014.

We did not recognize any impairment charges on our equity method investments for the years ended December 31, 2015 and 2014.

5. FAIR VALUE MEASUREMENT

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

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

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

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

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

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

5. FAIR VALUE MEASUREMENT (CONTINUED)

The following table presents information about our assets that are measured at fair value on a recurring basis as of December 31, 2015, and indicates the fair value hierarchy of the valuation techniques utilized to determine fair value:

		Fair Value Measurement at December 31, 2015 Measured Using	
Description	Total carrying amount in balance sheet December 31, 2015	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
		(in millions)	
Assets:			
Trading securities			
Fixed income			
Agency mortgage-backed securities	$125.5	$ —	$125.5
Corporate debt securities			
Banking	135.1	—	135.1
Industrial	71.3	—	71.3
Consumer non-cyclical	71.0	—	71.0
Consumer cyclical	55.7	—	55.7
Utility	50.3	—	50.3
Other financial institutions	45.4	—	45.4
Insurance	34.8	—	34.8
Communication	34.0	—	34.0
Government securities	20.3	—	20.3
Asset-backed securities	0.5	—	0.5
Equity			
Consumer products	56.8	56.8	—
Other industries	44.1	44.1	—
Industrials	36.5	36.5	—
Health care	34.8	34.8	—
Financial institutions	27.8	27.8	—
Mutual funds	29.9	29.9	—
Available-for-sale securities			
Mutual funds	32.1	32.1	—
Commingled fund	24.6	—	24.6
Total Assets	$930.5	$262.0	$668.5

5. FAIR VALUE MEASUREMENT (CONTINUED)

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

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

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

For the years ended December 31, 2015 and 2014, there were no transfers between Level 1, Level 2 or Level 3 of the fair value hierarchy.

5. FAIR VALUE MEASUREMENT (CONTINUED)

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

Fixed Income

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

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

Equity

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

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 a domestic mutual fund that invests in large-cap equity emphasizing in dividend paying stocks.

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

Commingled Fund

Our commingled fund invests in a broad range of U.S. fixed income securities, including government and agency securities, mortgage and structured finance securities, and investment-grade U.S. dollar-denominated corporate and sovereign securities. This investment is valued at the quoted net asset value per unit, computed as of the close of business on the balance sheet date. Units of this investment are valued daily and a unit-holder's ability to transact in the fund's units occurs daily. Accordingly, the valuation of these securities is categorized in Level 2 of the fair value hierarchy.

6. INCOME TAXES

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

Unrelated Business Income

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

6. INCOME TAXES (CONTINUED)

In 2013, management performed an evaluation of the net operating loss (NOL) previously reported under New NASD Holding, Inc. (NAHO), a wholly-owned taxable subsidiary of FINRA. Management determined that FINRA, as the parent organization, should succeed to the NAHO NOLs upon the liquidation of NAHO. At the time of liquidation, the NOL was determined to have a remaining value, net of gains recognized as part of the transaction, of $60.2 million. As a result of this recognition, as of December 31, 2015 and 2014, FINRA had federal unrelated business loss carryforwards of $57.6 million and $60.6 million, primarily related to NAHO losses and international consulting. The loss carryforwards are scheduled to expire beginning in 2021 through 2028.

The deferred tax asset related to the transfer of the NAHO NOL to FINRA was measured at $20.5 million. In order to record a deferred tax asset without a valuation allowance, it must be more likely than not that the deferred tax asset will be realized. A component of realization is dependent on generating sufficient taxable income prior to the expiration of the loss carryforwards, as well as evaluation of uncertain tax positions. In 2013, we recorded a valuation allowance equal to the amount of the deferred tax asset resulting from the NAHO liquidation. As of December 31, 2015, FINRA had a fully reserved federal deferred tax asset ($20.1 million net of a $20.1 million valuation allowance) reflecting the benefit of $57.6 million in loss carryforwards and other minor deferrals. As of December 31, 2014, FINRA had a federal deferred tax asset of $0.5 million ($21.0 million net of a $20.5 million valuation allowance) reflecting the benefit of $60.6 million in loss carryforwards and other minor deferrals. As of December 31, 2015, FINRA had an unrecognized tax benefit liability of $0.4 million, which is included in other liabilities in the consolidated balance sheets. FINRA had no unrecognized tax benefit liability as of December 31, 2014. There are no other significant deferred tax assets or liabilities related to unrelated business income. The federal and state 2015 and 2014 income tax provision of $1.2 million for both years primarily represents the net change in deferred tax assets related to unrelated business loss carryforwards during the year. The income tax provision is included in other expense in the consolidated statements of operations in 2015 and 2014.

We did not have any significant unrelated business income taxes payable or refundable in 2015 or 2014.

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 2012 to 2015, 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 related to current operations. However, FINRA has recognized an uncertain tax position related to the succession to the NAHO NOLs. The unrecognized tax benefit of the NAHO NOL has been partially offset by other tax credits and non-NAHO NOLs resulting in a net unrecognized tax benefit liability of $0.4 million as of December 31, 2015.

7. EMPLOYEE BENEFIT LIABILITIES

Defined Benefit Pension Plans

As of December 31, 2015 and 2014, 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 both December 31, 2015 and 2014, $7.2 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. Additionally, as of December 31, 2014, $1.2 million of investments is included in cash and cash equivalents in the consolidated balance sheet, representing pending distributions to participants.

The investment policy and strategy of the plan assets, as established by the Pension Committee, strive to achieve a rate of return on plan assets that over the long term will, in concert with Company contributions, fund the plan's liabilities to provide for required benefits. The ERP assets are allocated among a diversified portfolio of equity investments, fixed income securities, alternative investments and cash equivalents with both domestic and international strategies. Derivatives are permitted on a limited scale for hedging or creation of market exposures. Direct debt and equity interests are prohibited in any broker-dealer, exchange, contract market, regulatory client, alternative or electronic trading system, and entities that derive a certain threshold of revenue from broker-dealer activities. Asset allocations are reviewed quarterly and adjusted, as appropriate, to remain within target allocations. The Pension Committee reviews the investment policy annually, under the guidance of an investment consultant, to determine whether a change in the policy or asset allocation targets is necessary. The ERP assets consisted of the following as of December 31, 2015 and 2014:

	2015 Target Allocation	2015	2014
Equity securities:			
U.S. equity	18.0%	18.0%	17.6%
Non-U.S. equity	16.0%	15.9%	15.8%
Global equity	12.0%	11.6%	12.5%
Fixed income securities:			
U.S. fixed income	31.0%	31.4%	31.0%
Global fixed income	10.0%	10.0%	10.2%
Alternative investments	11.0%	10.9%	10.9%
Cash equivalents	2.0%	2.2%	2.0%
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 active asset managers overall will provide a modest premium to their respective market benchmark indexes. At least annually, the Pension Committee evaluates whether adjustments are needed based on historical returns to more accurately reflect expectations of future returns.

7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)

The following tables present information about the fair value of the Company's ERP assets at December 31, 2015 and 2014, by asset category, and indicate the fair value hierarchy of the valuation techniques utilized to determine fair value:

	Fair Value Measurement at December 31, 2015 Measured Using		
Description	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Total
	(in millions)		
Short-term investments in common/collective trusts (a)	$ —	$ 9.8	$ 9.8
Corporate stocks	15.7	—	15.7
Common/collective trusts (b):			
Equity	—	130.1	130.1
Fixed income	—	40.8	40.8
Mutual funds:			
Equity	39.6	—	39.6
Fixed income	169.8	—	169.8
Total assets in the fair value hierarchy	225.1	180.7	405.8
Partnership/joint venture interests measured at net asset value (c):	—	—	2.7
Total	$225.1	$180.7	$408.5

	Fair Value Measurement at December 31, 2014 Measured Using		
Description	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Total
	(in millions)		
Short-term investments in common/collective trusts (a)	$ —	$ 7.9	$ 7.9
Corporate stocks	15.9	—	15.9
Common/collective trusts (b):			
Equity	—	118.0	118.0
Fixed income	—	38.4	38.4
Mutual funds:			
Equity	38.3	—	38.3
Fixed income	154.4	—	154.4
Total assets in the fair value hierarchy	208.6	164.3	372.9
Partnership/joint venture interests measured at net asset value (c):	—	—	3.5
Total	$208.6	$164.3	$376.4

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

(b) Includes both domestic and international equity and fixed income securities. 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.

7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)

(c) In accordance with ASC Subtopic 820–10, subsequent to the adoption of ASU No. 2015–07, a certain investment that is measured at fair value using the net asset value per share practical expedient has not been classified in the fair value hierarchy. The fair value amount presented in this table is intended to permit reconciliation of the fair value hierarchy to the fair value of plan assets amount presented in the plan disclosures section of this footnote.

The investment included in this category is a private equity fund that invests in the natural resources and real estate industries. The investment is nonredeemable. The fair value of the investment has been estimated using the net asset value per share of the investments. The term of the 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 $3.8 million and $3.9 million had been funded as of December 31, 2015 and 2014.

For the years ended December 31, 2015 and 2014, there were no transfers between Level 1, Level 2 or Level 3 of the fair value hierarchy.

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

Postretirement and Retiree Medical Benefit Plans

As of December 31, 2015 and 2014, 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 life insurance benefit plan is closed with respect to new participants.

As of December 31, 2015 and 2014, the Company offered access to retiree medical coverage for eligible active employees, retirees and their dependents. Eligible retirees pay the full premium cost to be enrolled in the Company's retiree medical coverage. Additionally, the Company provided an employer-funded defined contribution RMA Plan to help our retirees offset health care premiums 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.

7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)

Plan Disclosures

The following tables disclose information related to our "Pension Plans," which include the ERP and SERP described above, and "Other Plans," which include the postretirement and retiree medical benefit plans described above. The reconciliation of the projected benefit obligation, the change in the fair value of plan assets for the periods ended December 31, 2015 and 2014, and the accumulated benefit obligation at December 31, 2015 and 2014, are as follows:

	Pension Plans		Other Plans	
	2015	2014	2015	2014
	(in millions)			
Change in benefit obligation				
Benefit obligation at beginning of period	$ 533.6	$ 485.4	$ 66.8	$ 51.4
Service cost	32.7	29.3	4.5	3.1
Interest cost	21.6	22.3	2.7	2.6
Plan amendments	0.1	—	—	—
Actuarial (gains) losses	(34.6)	63.7	(2.2)	10.9
Benefits paid	(14.7)	(67.1)	(1.4)	(1.2)
Benefit obligation at end of period	$ 538.7	$ 533.6	$ 70.4	$ 66.8
Change in plan assets				
Fair value of plan assets at beginning of period	$ 376.4	$ 390.4	$ —	$ —
Actual return on plan assets	(3.2)	13.8	—	—
Company contributions	50.0	39.3	1.4	1.2
Benefits paid	(14.7)	(67.1)	(1.4)	(1.2)
Fair value of plan assets at end of period	$ 408.5	$ 376.4	$ —	$ —
Underfunded status of the plan	$(130.2)	$(157.2)	$(70.4)	$(66.8)
Accumulated benefit obligation	$ 418.9	$ 410.1		

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

	Pension Plans		Other Plans	
	2015	2014	2015	2014
	(in millions)			
Current	$ 6.1	$ 5.7	$ 2.4	$ 2.5
Noncurrent	124.1	151.5	68.0	64.3
Net amount at December 31	$130.2	$157.2	$70.4	$66.8

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

The Company does not expect any plan assets to be returned to it during the year ending December 31, 2016.

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

	Pension Plans		Other Plans	
	2015	2014	2015	2014
	(in millions)			
Unrecognized net actuarial loss	$(105.1)	$(119.4)	$(12.5)	$(15.1)
Unrecognized prior service cost	(0.7)	(0.9)	(7.5)	(8.9)
Net amount at December 31	$(105.8)	$(120.3)	$(20.0)	$(24.0)

7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)

The following amounts were included in other comprehensive income (loss) during 2015:

	Incurred but Not Yet Recognized in Net Periodic Benefit Cost	Reclassification Adjustment for Prior Period Amounts Recognized
	(in millions)	
Actuarial gain		
Pension plans	$ 8.9	$5.4
Other plans	2.1	0.5
	11.0	5.9
Prior service cost		
Pension plans	—	0.2
Other plans	—	1.4
	—	1.6
	$11.0	$7.5

Estimated amounts to be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost during 2016 based on December 31, 2015, plan measurements are as follows:

	Pension Plans	Other Plans
	(in millions)	
Unrecognized prior service costs	$0.2	$1.4
Unrecognized actuarial losses	4.2	0.3

The weighted-average assumptions used to determine benefit obligations for the years ended December 31, 2015 and 2014, are as follows:

	Pension Plans		Other Plans	
	2015	2014	2015	2014
Discount rate	4.50%	4.20%	4.10%	3.75%
Rate of compensation increase	3.89%	3.89%	—	—

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

	Pension Plans		Other Plans	
	2015	2014	2015	2014
Discount rate	4.20%	5.00%	3.75%	4.69%
Rate of compensation increase	3.89%	4.80%	—	—
Expected return on plan assets	6.25%	6.75%	—	—

The assumptions above are used to develop the benefit obligations at year end and to develop the net periodic benefit cost for the subsequent year. Therefore, the assumptions used to determine benefit obligations 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 2016 net periodic benefit cost is 6.00 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.

7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)

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

	Pension Plans		Other Plans	
	2015	2014	2015	2014
	(in millions)			
Service cost	$ 32.7	$ 29.3	$4.5	$3.1
Interest cost	21.6	22.3	2.7	2.6
Expected return on plan assets	(22.4)	(23.4)	—	—
Recognized net actuarial losses	5.4	1.4	0.5	—
Prior service cost recognized	0.2	0.2	1.4	1.4
Settlement expense	—	13.8	—	—
Total	$ 37.5	$ 43.6	$9.1	$7.1

The assumed health care cost trend rate to be used for the next year to measure the expected cost of other plan liabilities is 9.0 percent, with a gradual decline to 7.0 percent by the year 2020. This estimated trend rate is subject to change. The assumed health care cost trend rate can have a significant effect on the amounts reported. However, a 1-percentage-point change in the assumed health care cost trend rate would not have a material impact on the benefit obligation or service and interest components of net periodic benefit cost.

We measure our plans as of the end of each fiscal year. The ERP's funding policy is to fund at least 100 percent of the ERP's funding target liability as set forth by the Internal Revenue Service. In 2016, we expect to contribute $50.0 million to the ERP. We do not expect to make any contributions to the SERP in 2016. In addition, we expect to make the following benefit payments to participants over the next 10 years:

	Pension Plans	Other Plans
	(in millions)	
Year ending December 31,		
2016	$ 25.8	$ 3.9
2017	22.7	4.3
2018	28.7	4.6
2019	29.1	5.9
2020	36.3	6.7
2021 through 2025	201.3	48.0
Total	$343.9	$73.4

All Other Benefit Plans

FINRA also maintains a voluntary contributory savings plan for eligible employees. Employees are immediately eligible to make elective contributions to the plan up to specified plan limits. Employees are also eligible to receive from FINRA a corresponding dollar-for-dollar matching contribution on any elective contribution made by the participant to the savings plan, up to a maximum of 4 percent of base compensation, with an additional discretionary match. The plan also has a retiree medical match equal to 25 cents on the dollar for elective contributions in excess of 6 percent of compensation, up to an annual maximum match of $1,000. The savings plan expense for 2015 and 2014 was $23.5 million and $22.7 million, which is included within compensation and benefits expense in the consolidated statements of operations. The savings plan expense includes a discretionary 2 percent match totaling $6.9 million and $6.7 million for 2015 and 2014, and is included within compensation and benefits expense in the consolidated statements of operations. The retiree medical match for 2015 and 2014 totaled $1.9 million and $1.8 million, which is included within compensation and benefits expense in the consolidated statements of operations.

7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)

FINRA also offers a defined contribution component to the savings plan to all new hires since 2011, as well as the ERP participants who elected to participate in the defined contribution component instead of the ERP. The accrued benefit of the former ERP participants was frozen, but future service with FINRA still allows for growth into vesting and eligibility for early retirement and/or early payment subsidies. The Company's contributions for this component are based on the participant's age plus years of service, and vesting is on a graduated scale for up to six years. The investment options are the same as the current options in the savings plan. Expenses related to the defined contribution component to the savings plan for 2015 and 2014 were $7.6 million and $5.8 million, which are included within compensation and benefits expense in the consolidated statements of operations.

FINRA maintains a deferred compensation plan for officers under the provisions of Section 457(b) of the IRC. Eligible employees may contribute to the plan and, at its discretion, FINRA may make additional contributions to the plan. FINRA placed the assets of this plan into an irrevocable rabbi trust that the Company consolidates. As of December 31, 2015, $15.6 million of investments and $15.6 million of amounts due to plan participants are included in trading investments and accrued personnel and benefit costs in the consolidated balance sheet, representing participant contributions to this plan and accrued earnings. As of December 31, 2014, $15.1 million of investments and $15.1 million of amounts due to plan participants are included in trading investments and accrued personnel and benefit costs in the consolidated balance sheet, representing participant contributions to this plan and accrued earnings. As of December 31, 2015 and 2014, FINRA made no additional contributions to this plan.

FINRA maintains a defined contribution SERP for the Company's senior officers. FINRA makes annual contributions based on salary and a portion of incentive compensation. Contributions and earnings vest upon the earlier of 1) the end of each third year of participation following such contribution; 2) attainment of age 62; 3) death; or 4) a disabled participant's termination of employment. FINRA placed the assets of this plan into an irrevocable rabbi trust that the Company consolidates. As of December 31, 2015, $14.3 million of investments and $14.3 million of amounts due to plan participants are included in trading investments and accrued personnel and benefit costs in the consolidated balance sheet, representing FINRA's contributions to this plan and accrued earnings. As of December 31, 2014, $12.3 million of investments and $12.3 million of amounts due to plan participants are included in trading investments and accrued personnel and benefit costs in the consolidated balance sheet, representing FINRA's contributions to this plan and accrued earnings.

8. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following is a summary of changes in accumulated other comprehensive income (loss) as of December 31, 2015 and 2014.

	Unrealized gain on available-for-sale investments	Net unrecognized employee benefit plan amounts	Total
		(in millions)	
Balance, January 1, 2014	$ 3.2	$ (76.9)	$ (73.7)
Other comprehensive income (loss) before reclassifications	0.7	(70.4)	(69.7)
Amounts reclassified from accumulated other comprehensive (income) loss (a)	(0.7)	3.0	2.3
Net current-period other comprehensive loss	—	(67.4)	(67.4)
Balance, December 31, 2014	3.2	(144.3)	(141.1)
Other comprehensive (loss) income before reclassifications	(0.3)	11.0	10.7
Amounts reclassified from accumulated other comprehensive (income) loss (a)	(2.8)	7.5	4.7
Net current-period other comprehensive (loss) income	(3.1)	18.5	15.4
Balance, December 31, 2015	$ 0.1	$(125.8)	$(125.7)

8. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (CONTINUED)

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

9. LEASES

FINRA leases certain office space and equipment in connection with its operations. The majority of these leases contain escalation clauses based on increases in rent, property taxes and building operating costs. Certain of these leases also contain renewal options. Rent expense for operating leases was $23.0 million and $23.8 million for the years ended December 31, 2015 and 2014, which is included in occupancy expense in the consolidated statements of operations.

Future minimum lease payments under non-cancelable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 2015:

Year ending December 31,	*(in millions)*
2016	$ 29.0
2017	27.4
2018	27.0
2019	26.4
2020	21.9
Remaining years	25.7
Total minimum lease payments	$ 157.4

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, 2015, 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, 2015.

11. SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 30, 2016, the date these financial statements became available to be issued.

FINRA Board of Governors as of June 15, 2016

Richard G. Ketchum
Chairman and
Chief Executive Officer
FINRA
Washington, DC

John J. Brennan (Industry)
The Vanguard Group, Inc.
Malvern, PA

Mark Cresap (Industry)
Cresap, Inc.
Radnor, PA

Carol Anthony (John) Davidson (Public)
Retired
Princeton, NJ

William H. Heyman (Public)
The Travelers Companies, Inc.
Saint Paul, MN

Susan Wolburgh Jenah (Public)
Former President and CEO of Investment Industry Regulatory Organization of Canada
Toronto, ON

Robert Keenan (Industry)
St. Bernard Financial Services
Russellville, AR

Brian Kovack, Esq.
Kovack Securities, Inc.
Ft. Lauderdale, FL

Shelly Lazarus (Public)
Ogilvy & Mather
New York, NY

Joshua S. Levine (Public)
Retired
New York, NY

Brigitte C. Madrian (Public)
Harvard Kennedy School of Government
Cambridge, MA

Joseph M. Mecane (Industry)
Barclays
New York, NY

Kathleen A. Murphy (Industry)
Fidelity Personal Investing
Boston, MA

Charles I. Plosser (Public)
Former Governor, Federal Reserve
Amelia Island, FL

Randal K. Quarles (Public)
The Cynosure Group
Salt Lake City, UT

Joe Romano (Industry)
Romano Wealth Management
Evanston, IL

John W. Schmidlin (Public)
Retired
New York, NY

Robert W. Scully (Public)
Retired
New York, NY

Leslie Seidman (Public)
Former Chairman,
Financial Accounting Standards Board
Westport, CT

John W. Thiel (Industry)
Merrill Lynch Wealth Management
New York, NY

Luis M. Viceira (Public)
Harvard Business School
Boston, MA

Elisse B. Walter (Public)
Former Commissioner, SEC
Bethesda, MD

James D. Weddle (Industry)
Edward Jones
St. Louis, MO

FINRA Officers as of June 15, 2016

Richard G. Ketchum
Chairman and
Chief Executive Officer

F. Gregory Ahern
Executive Vice President,
Corporate Communications and Government Relations

Susan F. Axelrod
Executive Vice President,
Regulatory Operations

J. Bradley Bennett
Executive Vice President,
Enforcement

Richard W. Berry
Executive Vice President and
Director of Dispute Resolution

Robert L. D. Colby
Executive Vice President and
Chief Legal Officer

Carlo V. di Florio
Chief Risk Officer and
Head of Strategy

Todd T. Diganci
Executive Vice President and
Chief Financial Officer

Cameron K. Funkhouser
Executive Vice President,
Office of Fraud Detection and Market Intelligence

Thomas R. Gira
Executive Vice President,
Market Regulation

Steven A. Joachim
Executive Vice President,
Transparency Services

Derek W. Linden
Executive Vice President,
Registration and Disclosure

Robert A. Marchman
Executive Vice President,
Market Regulation—Legal
Administration

Steven J. Randich
Executive Vice President and
Chief Information Officer

Michael G. Rufino
Executive Vice President,
Head of Member Regulation—
Sales Practice

Thomas M. Selman
Executive Vice President,
Regulatory Policy and
Legal Compliance Officer

Daniel M. Sibears
Executive Vice President,
Regulatory Operations—
Shared Services

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

FINRA Corporate Offices

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

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

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

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

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

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

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

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

FINRA District Offices

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

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

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

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

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

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

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

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

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

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

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

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

Philadelphia
(Through 7/8/2016)
1835 Market Street
Suite 1900
Philadelphia, PA 19103
(215) 665–1180
(215) 496–0434 (fax)

Philadelphia
(Effective 7/11/2016)
1601 Market Street
Suite 2700
Philadelphia, PA 19103
(215) 665–1180
(215) 496–0434 (fax)

San Francisco
(Through 7/8/2016)
One Montgomery Street
Suite 2100
San Francisco, CA 94104
(415) 217–1100
(415) 956–1931 (fax)

San Francisco
(Effective 7/11/2016)
100 Pine Street
Suite 1800
San Francisco, CA 94111
(415) 217–1100
(301) 527–4800 (fax)

FINRA Market Regulation Regional Offices

55 West Monroe Street
Suite 2700
Chicago, IL 60603
(312) 899–4504
(312) 236–9257 (fax)

440 South LaSalle Street
Suite 3500
Chicago, IL 60605

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

1835 Market Street
(Through 7/8/2016)
Suite 1900
Philadelphia, PA 19103
(215) 665–1180
(215) 496–0434 (fax)

1601 Market Street
(Effective 7/11/2016)
Suite 2700
Philadelphia, PA 19103
(215) 665–1180
(215) 496–0434 (fax)

220 Montgomery Street
(Through 7/1/2016)
Suite 200
San Francisco, CA 94104
(415) 835–4860
(301) 339–7545 (fax)

Office of Dispute Resolution Regional Offices

Midwest Region
55 West Monroe Street
Suite 2600
Chicago, IL 60603
(312) 899–4440
(301) 527–4851 (fax)

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

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

West Region
300 South Grand Avenue
Suite 1700
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