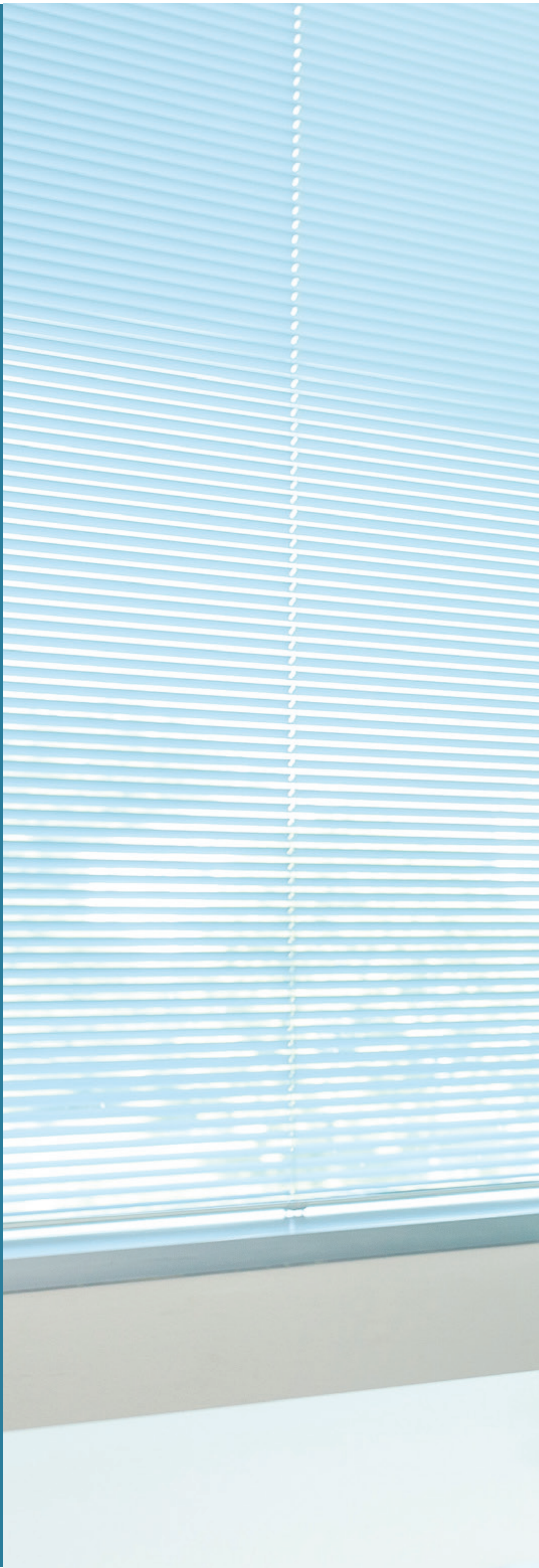
2016 FINRA Annual Financial Report

Contents



Robert W. Cook | President and Chief Executive Officer

A MESSAGE FROM THE PRESIDENT AND CEO

FINRA plays an essential role in the oversight of U.S. broker-dealers, working to protect investors, promote market integrity and facilitate vibrant capital markets. To fully support this mission, FINRA must maintain a strong financial position and be a prudent steward of its resources.

The accompanying 2016 Annual Financial Report describes FINRA's financial operations for last year.

Operating revenues declined 6 percent in 2016, driven by changes to the scope of regulatory functions provided under regulatory services agreements, lower corporate financing fees due to a decline in the number of filings for initial and secondary public offerings, and a decline in continuing education fees following the transition to a lower-fee online delivery format—which was designed to reduce costs and increase convenience for our members. We expect operating revenue challenges to continue this year, with a projected decline of 1 percent for 2017.

Emerging Regulatory Issues

FINRA tightly managed expenses in 2016, and as a result, costs remained flat year over year. Overall, compensation and benefits expenses increased slightly, as did spending due to cloud computing, big data software and data analytics. However, these increases were offset by a 9 percent decline in incentive compensation (relative to total eligible salaries), and a reduction in continuing education administration costs as a result of the move to online content. We also transitioned more than 1,100 employees from a pension plan to a defined contribution component of our 401(k) plan, reducing our pension liability as of December 31, 2016, by approximately $80.2 million. For 2017, we are continuing to take steps to manage expenses closely. Already this year, among other actions, we have reduced year-over-year compensation increases by freezing officer salaries, freezing promotions of existing officers (other than where necessary to backfill positions), and reducing annual merit increases for non-officers.

FINRA maintains a strong balance sheet to support its operations, with approximately $1.6 billion in equity (net assets). This balance sheet enables us to strategically advance our mission through prudent, targeted investments in technology and other areas, such as financing the migration of our market surveillance programs to the cloud, which we completed in 2016.

In addition, we have used approximately $50 million of yield from our investment portfolio annually to fund our operations, which has enabled us to defer fee increases to members. As a result, member fees were last increased five years ago.

Market Surveillance Collaboration

As we look forward to the second half of 2017 and beyond, FINRA is focused on operating efficiently and effectively as a self-regulatory organization. It has been 10 years since FINRA was formed through the merger of NASD and certain regulatory operations of the NYSE. During the last decade, FINRA has made many substantial enhancements to its operations to adapt to changes in its membership and the markets. But amidst all that important work, FINRA has not had an opportunity to conduct an organizationwide self-assessment and improvement initiative. With our 10th anniversary, and continuing feedback from my ongoing listening tour, we have determined that the time is right to take a hard look at ourselves and implement changes necessary to ensure that FINRA is well-positioned to achieve our mission now and in the future.

To achieve this objective, we have embarked on a comprehensive, multi-year initiative called FINRA360 that is focused on creating an organization committed to continuous improvement. This initiative provides a framework for processing the internal and external feedback we continue to receive, engaging in a thoughtful analysis to determine whether there are opportunities for improvement, and making changes that will produce a stronger organization.

As we proceed with FINRA360, we will work to identify opportunities to be more efficient with our resources while also maintaining high standards of investor protection—and doing so in a manner that fully supports the important role that America's capital markets play in creating jobs, building financial security and fostering innovation.

I look forward to providing updates on our progress with FINRA360 in the coming months.

Robert W. Cook
President and Chief Executive Officer

FINRA PLAYS AN ESSENTIAL ROLE IN THE OVERSIGHT OF U.S. BROKER-DEALERS

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

Our technology
looks across markets to detect potential fraud

We processed 37 billion
market events on average every day in 2016

We protect investors from bad actors.

More than 5,550
exams conducted in 2016

$173.8 million
in fines

$27.9 million
in restitution to harmed investors

24 firms expelled

727 brokers suspended

517 brokers barred

1,434 disciplinary actions

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

785
cases referred for prosecution to the SEC and other federal or state law enforcement agencies

439
potential market manipulation cases referred to the SEC

97
potential Reg M violations detected by cross-market patterns referred to the SEC

We work to keep investors informed.

BrokerCheck
111 million reviews of brokers and firm records conducted in 2016

FINRA Investor Education Foundation
Committed $107 million+ for financial capability and fraud prevention initiatives since inception

Securities Helpline for Seniors
Facilitated the return of $4.3 million in voluntary reimbursements to senior investors from April 2015 through April 2017

UX Design

Management Report on Financial Operations

Who We Are

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

Our Mission

Our core mission is to pursue investor protection and market integrity, and we carry it out by overseeing virtually every aspect of the broker-dealer industry.

Our Regulatory Model

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

Member Regulation/Enforcement

FINRA's Member Regulation and Enforcement departments monitor and enforce member compliance with industry rules and regulations.

Fraud Detection

FINRA's Office of Fraud Detection and Market Intelligence centralizes FINRA's review of allegations of serious fraud and significant investor harm, analyzes trading activity across U.S. markets for evidence of insider trading, and analyzes tips and complaints of possible fraud or other misconduct that are submitted to FINRA's Whistleblower hotline or mailbox.

Market Regulation

FINRA's Market Regulation Department conducts automated surveillance, examinations and investigations of trading market activity in U.S. equities, options and fixed income markets and enforces rules.

FINRA.org and RAD Collaboration

Rulemaking and Guidance

FINRA's Office of General Counsel assists FINRA in adopting rules and providing guidance applicable to securities firms and brokers. FINRA solicits comment on its proposed rules from its members, investors and other interested parties, and, with limited exceptions, all FINRA rules must be approved by the SEC.

Registration and Disclosure, and Testing and Continuing Education

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

Market Transparency

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

Dispute Resolution

FINRA's Office of Dispute Resolution operates a dispute resolution forum for investors, brokerage firms and their registered employees, and administers arbitrations and mediations through a network of four regional offices, with 71 hearing locations, including one in each state and Puerto Rico.

Advertising Regulation/Corporate Finance

Through the Advertising Regulation Department, FINRA ensures that member communications to the public are fair, balanced and not misleading, and through the Corporate Finance Department, FINRA regulates corporate offerings to address fraudulent private placements and ensure underwriting compensation is fair.

Investor Education

FINRA's Office of Investor Education provides investors with financial tools and resources, and through the FINRA Investor Education Foundation®, FINRA supports important research and financial education initiatives.

FINRA's Regulatory Policy Committee; Finance, Operations and Technology Committee; Management Compensation Committee; Executive Committee and Audit Committee of the Board of Governors (Board) all meet multiple times throughout the year to review both the accomplishments and the risks and challenges associated with each of these areas in the furtherance of FINRA's mission.

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

RCM Program Collaboration

This Management Report should be read in connection with the consolidated financial statements and accompanying notes included elsewhere in this Annual Financial Report. The 2016 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, 2016 and 2015, FINRA's primary consolidated subsidiaries are FINRA Regulation, Inc. and the FINRA Investor Education Foundation.

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

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.

RESULTS OF OPERATIONS

Summary of Operations

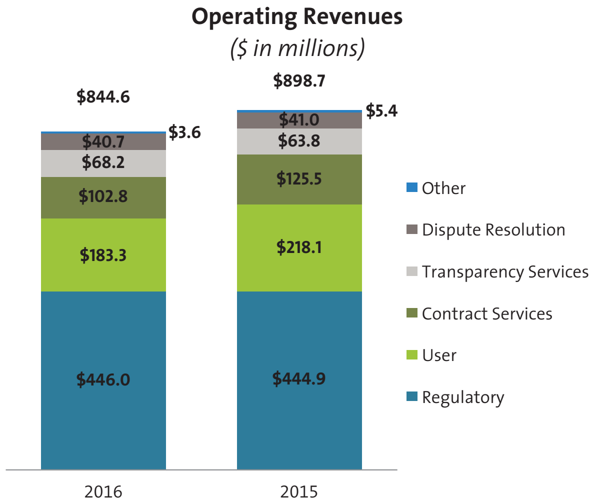
The following table provides a summary of our financial results on a U.S. GAAP basis for the two years ended December 31, 2016.

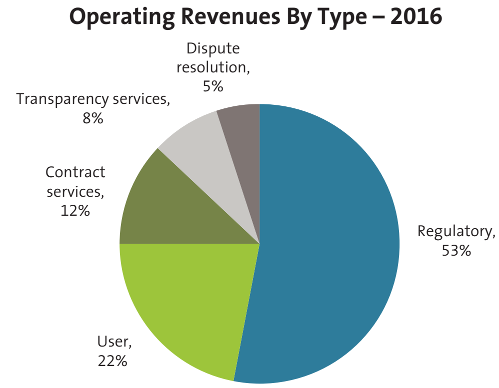
	Years Ended December 31,	
	2016	2015
	(in millions)	
Operating revenues	$ 844.6	$ 898.7
Fines	173.8	93.8
Net revenues	1,018.4	992.5
Expenses	(1,037.4)	(1,038.1)
Interest and dividend income	31.4	28.2
Operating income (loss)	12.4	(17.4)
Net realized and unrealized investment gains (losses)	17.1	(7.4)
Equity earnings (losses) from other investments	29.7	(13.5)
Other expense	(1.5)	(1.2)
Net income (loss)	$ 57.7	$ (39.5)

We reported net income of $57.7 million in 2016 versus a loss of $39.5 million in 2015. The change is primarily related to two areas: fines and portfolio returns. An increase in fines revenue more than offset the decrease in operating revenues for the year, while portfolio returns, including interest and dividend income, increased $70.9 million year over year. A more detailed look at our operating results follows.

Management Report on Financial Operations (continued)

OPERATING REVENUES





COMMENTARY: 2016 – 2015

Regulatory revenues (the Gross Income Assessment, Personnel Assessment, Branch Office Assessment and Trading Activity Fees) consistently represent approximately half of FINRA's operating revenues on an annual basis. User revenues (registrations, qualification examinations, FINRA-sponsored educational programs and conferences, and reviews of advertisements, corporate filings and disclosures) consistently represent almost a quarter of FINRA's operating revenues on an annual basis.

FINRA's operating revenues for 2016 decreased $54.1 million or 6 percent. The following table identifies the individually material (greater than $5 million) changes in operating revenues year over year.

Operating Revenues Walk:
(in millions)

2016 – 2015	
2015	$898.7
Transparency services – corporate debt trading fees	5.0
Disclosure review revenue	(6.7)
Continuing education revenue	(8.6)
Corporate financing revenue	(14.5)
Contract services revenue	(22.7)
Other	(6.6)
2016	$844.6

Fixed income trading volume drove the increase in transparency services revenue.

Offsetting the increase in transparency services revenue were lower disclosure review, continuing education, corporate financing and contract services revenues. The decrease in disclosure review revenue resulted from the substantial completion of the Central Registration Depository (CRD®) Public Records Validation Initiative by the end of 2015. FINRA continues to cross check public records against CRD records to keep the CRD database current.

The move to lower-fee online content drove the decrease in continuing education revenues. The decrease in continuing education fees was offset by lower continuing education administration costs, as shown in the following expenses section of this report.

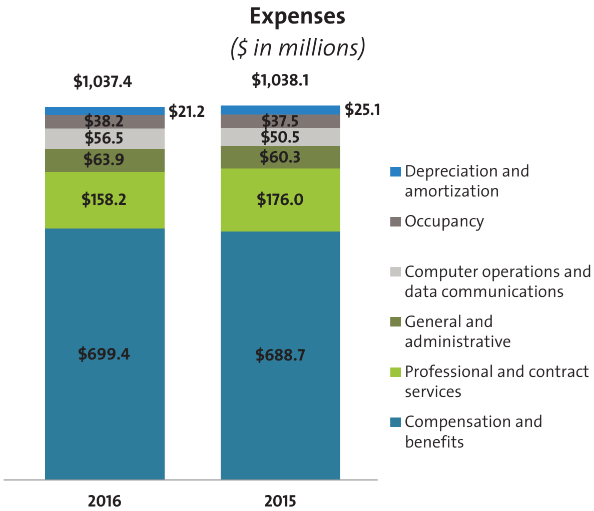
A year-over-year decline in filings for initial and secondary public offerings led to the decrease in corporate financing revenue.

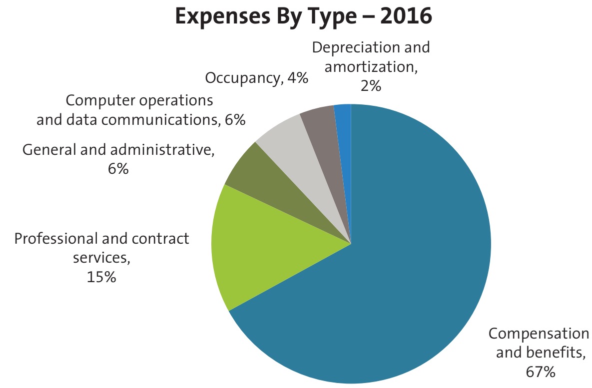
The decline in contract services revenue was primarily the result of changes to the scope of regulatory functions provided under our regulatory services agreements.

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

Management Report on Financial Operations (continued)

EXPENSES





COMMENTARY: 2016 – 2015

FINRA is largely a service organization. Our expenses are driven by employee-related costs, as we seek to attract, develop and retain a diverse group of talented staff, particularly in the highly specialized areas of regulation and technology, to enable FINRA to carry out its regulatory mandate in today's ever-changing markets. Employee compensation and benefits are FINRA's largest expense, consistently representing more than two-thirds of total expenses on an annual basis. FINRA had approximately 3,500 employees as of both December 31, 2016 and 2015.

Expenses were essentially flat for 2016 as we closely managed expenses given lower operating revenues. The following table identifies the individually material changes in expenses year over year.

Expenses Walk:
(in millions)

2016 – 2015	
2015	$1,038.1
Compensation and benefits	10.7
Technology leveraging innovations	8.0
Continuing education costs	(9.2)
Market regulation cloud migration initiative	(11.1)
Other	0.9
2016	$1,037.4

Compensation and benefit expenses increased 1.6 percent year over year as employee merit, promotion and equity increases were offset by a decrease in incentive compensation. These increases have traditionally averaged between three and four percent annually.

Our efforts to leverage technology innovations, including the convergence of cloud computing, big data software, machine learning and data analytics across all of FINRA are designed to distill the data we collect into knowledge that will allow us to fundamentally transform the effectiveness of our regulation. Spending related to these innovations ramped up significantly in 2016 with the completion of our market regulation cloud migration (Cloud) initiative.

Work on the Cloud initiative, a key milestone in our efforts to leverage technology innovations, continued throughout 2015, but wrapped up in early 2016. Therefore, expenses related to the Cloud initiative decreased substantially year over year. The Cloud initiative, which primarily included consulting and cloud computing charges, allowed us to more efficiently store and process data.

While resulting in lower revenues as mentioned earlier, FINRA's move to online content also reduced its continuing education costs.

INVESTMENT RETURNS

COMMENTARY: 2016 – 2015

Traditionally, FINRA has relied on the investment returns from its balance sheet to fund operating expenditures in excess of its annual revenues in any given year. FINRA had portfolio returns of 3.8 percent in 2016 compared to 0.4 percent in 2015.

FINRA's investment returns, including interest and dividend income, for 2016 increased $70.9 million. The following table identifies the changes in investment returns year over year.

Investment	2016 returns	2015 returns	Increase (decrease)
		(in millions)	
Broadly diversified multi-asset fund	$29.7	$(13.5)	$43.2
Fixed income portfolio	25.0	0.4	24.6
Equity fund (dividend growth)	19.0	6.7	12.3
Other (primarily the Foundation and executive retirement investments)	4.4	4.2	0.2
Recoveries	0.1	9.5	(9.4)
Total	$78.2	$ 7.3	$70.9

Market performance drove the equity gains associated with our broadly diversified multi-asset fund in 2016 as opposed to losses in 2015.

The downturn in the bond market in 2015 resulted in a loss of over $20 million to our fixed income portfolio which offset almost all of the interest income earned for the year. In 2016, improved market conditions provided the portfolio with a slight gain and an increase in interest income.

In 2016, the movement of our equity holdings to a mutual fund resulted in the recognition of gains earned to-date in the former equity portfolio. Furthermore, stronger equity market performance in 2016 also provided our equity portfolio with higher net gains and dividend income compared to 2015.

In 2015, we recovered money from an investment that was written off in 2008. There were no material recoveries in 2016.

FINES

FINRA is dedicated to investor protection and market integrity through effective and efficient regulation of broker-dealers. Our job is to protect America's investors by making sure the broker-dealer industry operates fairly and honestly. We do this by writing and enforcing rules governing the activities of broker-dealers, examining firms for compliance with those rules, fostering market transparency and educating investors.

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. We focus not only on bringing disciplinary actions and levying fines, but also on ordering restitution for harmed investors.

Fines represent sanctions for rule violations. The National Adjudicatory Council (NAC) has developed the *FINRA Sanction Guidelines* for use by the various bodies adjudicating disciplinary decisions, including Hearing Panels and the NAC itself, in determining appropriate remedial sanctions. FINRA publishes the *FINRA Sanction Guidelines* so that members, associated persons and their counsel may become more familiar with the types of disciplinary sanctions that may be applicable to various violations.

FINRA recognizes fines upon issuance of a written consent or disciplinary decision. We do not view fines as part of our operating revenues. The use of fine monies is limited to capital expenditures and regulatory projects, such as our efforts to leverage technology innovations and the Cloud initiative, and other projects as appropriate, which are reported to and approved by our Finance, Operations and Technology Committee and Board.

While the number of monetary sanctions decreased approximately 10 percent from 691 in 2015 to 624 in 2016, total fines increased $80.0 million in 2016 to $173.8 million. We also ordered $27.9 million in restitution to harmed investors during 2016.

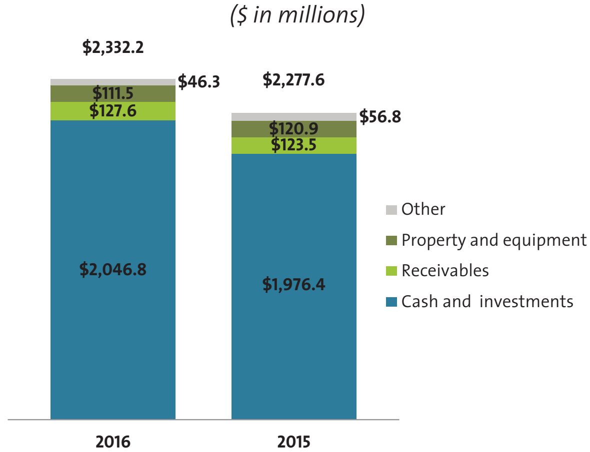
BALANCE SHEET

Our focus is to ensure a strong balance sheet, so that we are financially positioned to respond to the regulatory needs of our members and the investing public in today's continually evolving markets. To that effect, our balance sheet remains strong, with net assets of approximately $1.6 billion as of December 31, 2016 and approximately $1.5 billion as of December 31, 2015. FINRA's working capital (excluding fines) was $833.8 million as of December 31, 2016, and $808.7 million as of December 31, 2015. Our working capital and cash ratios (excluding fines) were 2.46 and 2.19 as of December 31, 2016, compared to 2.41 and 2.18 as of December 31, 2015. The increase in FINRA's working capital and the related ratio was driven by investment returns and an increase in investments receivable, which fluctuate year over year based on the timing and amount of pending investment activity. Our cash ratio remained consistent year over year.

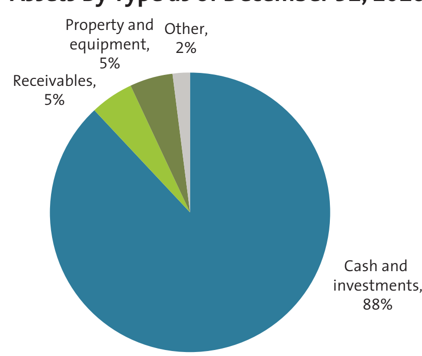
Assets

Assets By Type as of December 31

($ in millions)



Assets By Type as of December 31, 2016



COMMENTARY: 2016 – 2015

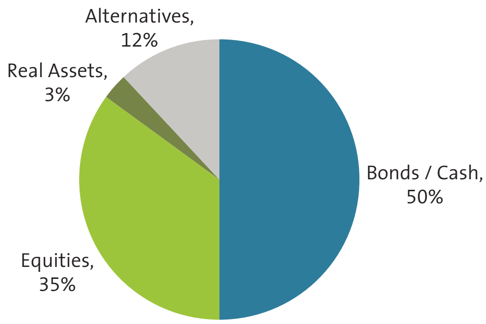
Cash and investments (cash, cash equivalents and trading, available-for-sale and other investments, including investments receivable), are the largest portion of FINRA's total assets, consistently representing close to 90 percent of total assets annually. Our primary market risk relates to our investment portfolio. Our investments are impacted by fluctuations in the securities markets and interest rates, as well as other financial and nonfinancial risks.

Management Report on Financial Operations (continued)

Assets (continued)

Our portfolio exposures as of December 31, 2016, are presented in the following chart.

Exposures as of December 31, 2016



Total assets increased $54.6 million or 2.4 percent. The following table identifies the individually material changes in assets year over year.

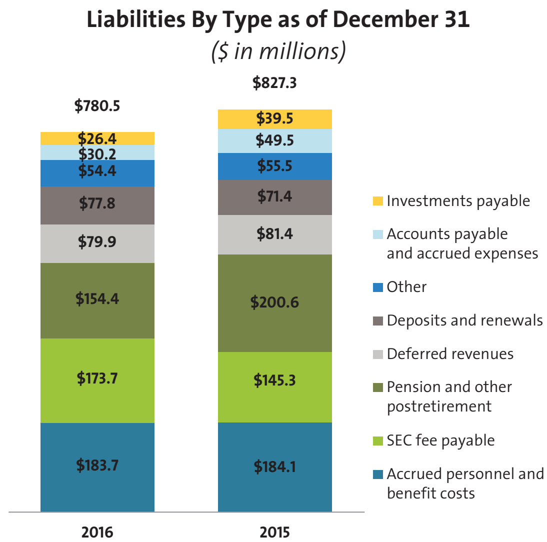
Assets Walk:
(in millions)

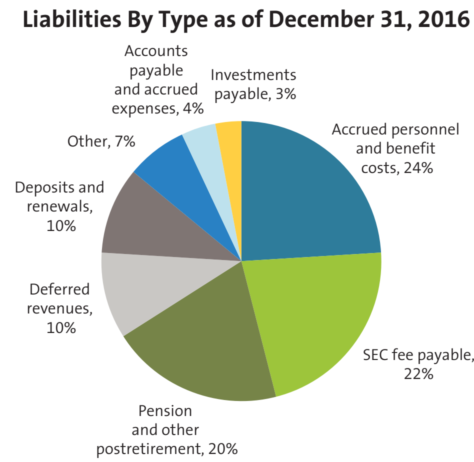
2016 – 2015	
2015	$2,277.6
Investment returns	78.2
Increase in SEC fees receivable	28.4
Depreciation and amortization	(21.2)
Pension plan contribution	(41.3)
Other	10.5
2016	$2,332.2

Total assets increased year over year primarily due to investment returns of 3.8 percent in 2016 and an approximate 18 percent SEC fee rate increase from December 31, 2015 to December 31, 2016. These increases were offset by depreciation and amortization of our fixed and intangible assets as well as our $41.3 million contribution to the pension plan during 2016.

Management Report on Financial Operations (continued)

Liabilities





COMMENTARY: 2016 – 2015

FINRA's total liabilities decreased $46.8 million or 5.7 percent. The following table identifies the individually material changes in liabilities year over year.

Liabilities Walk:
(in millions)

2016 – 2015	
2015	$827.3
Increase in SEC fees payable	28.4
Increase in deposits and renewals	6.4
Decrease in investments payable	(13.1)
Decrease in accounts payable and accrued expenses	(19.3)
Decrease in pension plan liability	(44.3)
Other	(4.9)
2016	$780.5

Our SEC fee payable increased due to a rate increase from $18.40 to $21.80 per million dollars in transactions. We remit these SEC fees to the U.S. Treasury semiannually, in March and September.

Deposits and renewals increased due to increased firm funding into our CRD system.

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.

Accounts payable and accrued expenses were higher in 2015 due to accrued cost savings to be passed back to exchanges as part of our regulatory service agreements and laptops purchased as part of our company-wide laptop refresh initiative.

Pension plan changes, asset performance and the annual pension contribution, partially offset by changes in actuarial assumptions and normal costs, led to a $44.3 million reduction in the pension liability year over year. On July 15, 2016, the Board approved the decision to transition approximately 1,100 pension plan participants who did not meet certain age and service criteria to the defined contribution component to the savings plan effective January 1, 2017. Pension benefits for the transitioned participants accrued through December 31, 2016. The transition of these participants out of the pension plan led to an $80.2 million curtailment gain

Liabilities (continued)

which decreased the pension plan liability. Favorable asset performance of $26.8 million and our pension contribution of $41.3 million also decreased the pension liability. Offsetting these decreases were $54.3 million of actuarial losses and $49.7 million of service and interest costs. The actuarial losses were driven by a decrease in the discount rate from 4.5 percent at December 31, 2015, to 4.25 percent at December 31, 2016, coupled with a 50 basis point reduction in lump sum rates. Service and interest costs represent benefits attributed to the current year. The $80.2 million curtailment gain correspondingly increased equity, while the $54.3 million of actuarial losses correspondingly decreased equity.

Pension and other postretirement benefit costs represent a significant liability to FINRA in terms of both the assumptions used to estimate the liability and its portion of FINRA's total liabilities. These costs have historically represented close to 25 percent of total liabilities on an annual basis, although that percentage dropped to 20 percent in 2016 in light of the transition discussed above. Further disclosures regarding the assumptions used in determining our pension and other postretirement liabilities can be found in Note 2, "Summary of Significant Accounting Policies."

Management Report on Financial Operations (continued)

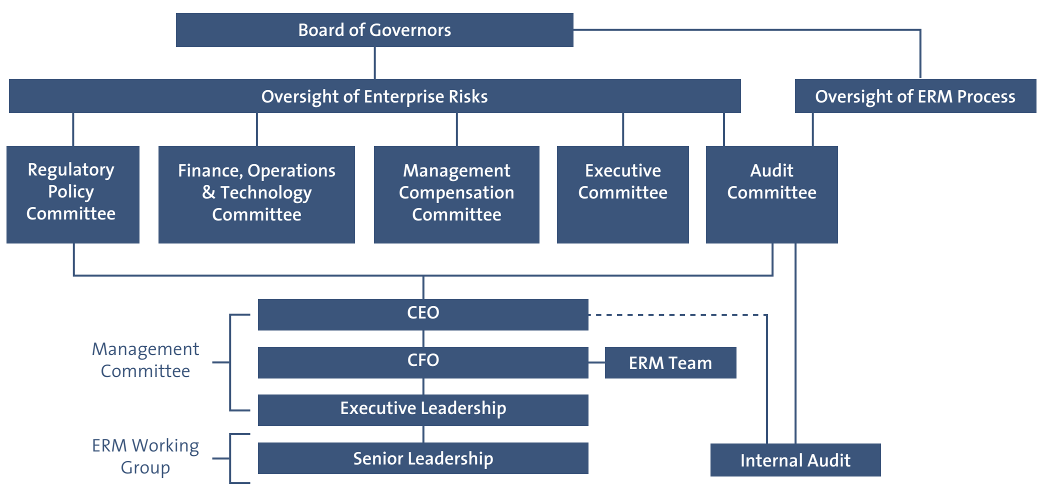
LIQUIDITY AND CAPITAL RESOURCES

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

FINRA's investment portfolio (the Portfolio) is governed by a policy based on the degree of risk deemed appropriate for FINRA assets by the Board as applied to its investment objectives. FINRA's Investment Committee, whose members have extensive background and experience in the investment community, provides overall guidance and advice in determining the appropriate policy and allocation for the Portfolio. As of December 31, 2016, the Portfolio remained highly liquid, with 60 percent available in 30 days or less.

ENTERPRISE RISK MANAGEMENT

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



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

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

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

FINRA's ERM program addresses a number of areas important to the execution of the organization's mission, and FINRA management is actively engaged with the Board in the program's operations.

CONCLUSION

As noted in the letter from President and CEO Robert Cook, FINRA's revenues for 2017 are projected to decline by about one percent. Additionally, we anticipate that expenses for 2017 will increase about two percent, and operating cash flows are anticipated to be break even in 2017. Based on this forecast, 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 President 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, 2016. 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, 2016.

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, 2016.

June 26, 2017

Robert W. Cook
President and Chief Executive Officer

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

Investment Committee Report

Year Ended December 31, 2016

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 3.8 percent in 2016, including returns from its cash operating fund. Overall, 2016 was a turbulent year marked by large valuation swings. U.S. equities ended the year at record highs on expectations of reduced regulatory restrictions and increased fiscal stimulus. In contrast, bonds experienced more modest returns as the Federal Reserve raised interest rates for the second time in 10 years amid strengthening U.S. economic data and increasing inflation expectations. The chart below shows investment results for FINRA and for several common market benchmarks. As of December 31, 2016, FINRA's investment portfolio, including cash, totaled approximately $1.8 billion. Portfolio liquidity remains strong, with $1.1 billion, or 60 percent, available in 30 days or less as of December 31, 2016.

		Annualized Returns		
	2016	3-Year	5-Year	Inception (1)
FINRA	3.8%	3.3%	4.5%	3.4%
U.S. Consumer Price Index	2.1%	1.2%	1.4%	2.1%
Bloomberg Barclays U.S. Aggregate Bond Index	2.6%	3.0%	2.2%	4.2%
MSCI ACWI (2)	8.5%	3.7%	10.0%	6.8%

Standard Deviation	2016	3-Year	5-Year
FINRA	3.4%	3.6%	3.4%
MSCI ACWI (2)	11.3%	11.2%	11.4%

(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 2016.

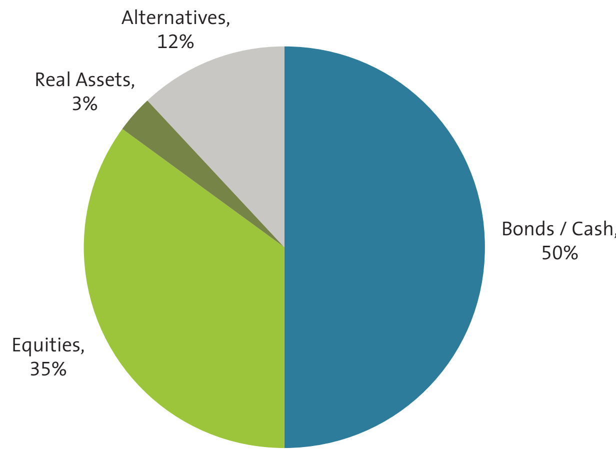
FINRA operates under a low volatility strategy, with the objective of creating a lower-risk portfolio than a traditional 60 percent stock/40 percent bond allocation. In 2016, the Investment Committee directed a full review of FINRA's investment policy and strategy, which resulted in recommended changes that were approved by the Board in December 2016 to be gradually implemented over several years. The new policy consists of a core portfolio of stocks and bonds and a satellite portfolio of strategies with low correlation to the capital markets for risk-managed diversification. The revised policy will increase portfolio liquidity and reduce overall fees, while remaining consistent with FINRA's risk tolerance. With this new policy, FINRA will continue to maintain a broadly diversified investment portfolio, representing a wide range of assets and asset classes, in order to attain acceptable levels of risk as determined by the Board. 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, 2016. Market exposures are 50 percent bonds/cash and 35 percent equities. Alternatives, at 12 percent, consist of non-correlated exposures. Real assets, at 3 percent, comprise investments in real estate, commodities and Treasury Inflation-Protected Securities (TIPS).

Exposures as of December 31, 2016



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. Within our debt securities portfolio, all securities in the banking and brokerage sectors are held in a blind trust, in order to prohibit any knowledge of or participation in the making of such investments by any FINRA regulatory personnel, and to avoid any appearance of a conflict of interest with FINRA's responsibilities. Our equity investment is maintained in a pooled vehicle in which FINRA has neither management discretion nor direct ownership of the underlying investments, in order to avoid any appearance of a conflict of interest. Our private investment fund is not affiliated with a broker-dealer.

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:

Luis M. Viceira, Chair
John J. Brennan
Carol Anthony (John) Davidson
Richard J. Flannery
Charles I. Plosser
Richard C. Romano

June 26, 2017

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 Leslie F. Seidman and John Davidson are audit committee financial experts, as defined by the SEC.

During 2016, the Audit Committee met seven times.

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.)*

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

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

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

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

Ernst & Young LLP (EY) has been FINRA's independent auditor for approximately 25 years.

Audit Committee Report (continued)

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

Independent Registered Public Accountant (IRPA) Fees

	FINRA	
	2016	2015
Audit services (1)	$1,109,995	$1,053,995
Audit-related services (2)	274,000	260,800
Tax services (3)	99,490	133,517
All other services (4)	499,227	—
Total	$1,982,712	$1,448,312

(1) For 2016 and 2015, audit services represent the consolidated financial statement audit and the audit on internal control.

(2) Audit and attest services provided to FINRA and subsidiaries.

(3) Tax services represent fees related to tax return preparation and review services in connection with the 2016 and 2015 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 FINRA's efforts to leverage technology innovations and the standard reporting metrics initiative.

The Audit Committee discussed and reviewed with the independent auditor all communications required under the rules adopted by the PCAOB. Further, the Audit Committee has reviewed and discussed with management and EY, with and without management present, the consolidated audited financial statements as of December 31, 2016; 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, 2016.

Members of the Audit Committee:

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

June 26, 2017

Management Compensation Committee Report

Year Ended December 31, 2016

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 six times during 2016.

Management Compensation Committee Report (continued)

The Committee has the sole right and responsibility to hire and terminate a compensation consultant. In 2016, 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.

Management Compensation Committee Report (continued)

Summary Compensation Table

The following table presents actual 2016 and 2015 compensation data in the year paid (all amounts are in dollars). The 2017 salary information represents the base annual salary at which the top ten executives, as of June 26, 2017, are compensated. It does not represent 2017 year-to-date earnings. The 2017 incentive compensation amounts represent the actual payment in February 2017 based on 2016 performance. Other amounts, including deferred compensation and other benefits, are not presented for 2017, as these accumulate over the course of the year and final amounts are not determined until year-end.

Name and principal position		Salary (1)	Incentive compensation (2)	Deferred compensation (3)	Other benefits (4)	Total
Robert W. Cook	2017	1,000,000	0 (5)	*	*	1,000,000
President and Chief Executive Officer	2016 (6)	346,154	—	92,865	3,293	442,312
	2015	—	—	—	—	—
Todd T. Diganci	2017	600,000	695,000	*	*	1,295,000
EVP – Chief Financial Officer and	2016	592,308	750,000	128,438	28,634	1,499,380
Chief Administrative Officer	2015	550,000	700,000	92,844	29,037	1,371,881
Steven J. Randich	2017	500,000	580,000	*	*	1,080,000
EVP and Chief Information Officer	2016	500,000	575,000	143,473	34,315	1,252,788
	2015	500,000	565,000	161,411	32,788	1,259,199
Robert L. D. Colby	2017	500,000	490,000	*	*	990,000
EVP and Chief Legal Officer	2016	500,000	525,000	142,006	24,455	1,191,461
	2015	500,000	525,000	159,153	21,812	1,205,965
Susan F. Axelrod	2017	450,000	465,000	*	*	915,000
EVP, Regulatory Operations	2016	450,000	500,000	170,607	37,936	1,158,543
	2015	450,000	500,000	132,930	45,793	1,128,723
Thomas R. Gira	2017	450,000	465,000	*	*	915,000
EVP, Market Regulation and	2016	446,154	500,000	1,672,753 (7)	39,002	2,657,909
Transparency Services	2015	425,000	500,000	57,416	30,584	1,013,000
Cameron K. Funkhouser	2017	375,000	418,000	*	*	793,000
EVP, Office of Fraud Detection	2016	375,000	435,000	72,543	35,392	917,935
and Market Intelligence	2015	375,000	420,000	53,496	36,792	885,288
Daniel M. Sibears	2017	395,840	385,000	*	*	780,840
EVP, Regulatory Operations –	2016	395,840	390,000	96,128	42,864	924,832
Shared Services	2015	395,840	390,000	71,928	53,733	911,501
Michael G. Rufino	2017	365,000	413,000	*	*	778,000
EVP, Head of Member Regulation –	2016	363,462	430,000	218,391	36,314	1,048,167
Sales Practice	2015	353,462	409,000	108,662	33,662	904,786
Carlo V. di Florio	2017	450,000	278,000	*	*	728,000
Chief Risk Officer and	2016	450,000	300,000	144,414	32,853	927,267
Head of Strategy	2015	450,000	340,000	120,133	41,868	952,001

* 2017 deferred compensation and other benefits cannot be fully determined until the end of the calendar year, and are therefore not included in the above table.

1 Salary is paid bi-weekly, one week in arrears. 2017 salary information represents the executives' current base annual rate of pay as of June 26, 2017.

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 2017 was paid in February 2017, based on 2016 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. Funkhouser and Mr. Sibears participate in FINRA's supplemental defined benefit retirement plan, which is now closed to new participants. The remaining listed executives are participants in the supplemental defined contribution retirement plan. Deferred compensation also includes employer-funded 401(k) matching contributions and the accrual of benefits in FINRA's employee retirement plans. The 401(k) and retirement plans are generally available to all employees.

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

5 Mr. Cook was eligible for but declined to accept incentive compensation for 2016.

6 The 2016 compensation for Mr. Cook represents a partial year of employment.

7 This amount represents a one-time cliff vesting event within the supplemental defined benefit retirement plan, covering more than 24 years of service to FINRA.

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:

Randal K. Quarles, Chair
Carol Anthony (John) Davidson
Shelly Lazarus
Luis M. Viceira

June 26, 2017

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, 2016, 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) and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of FINRA as of December 31, 2016 and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows in the year ended December 31, 2016. We have audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of FINRA as of December 31, 2015, and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for the year ended December 31, 2015. Our report dated June 26, 2017 expressed an unqualified opinion thereon.

Ernst + Young LLP

Tysons, Virginia
June 26, 2017

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, 2016 and 2015, 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 December 31, 2016 audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. We conducted our December 31, 2015 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 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, 2016 and 2015, 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) and in accordance with auditing standards generally accepted in the United States of America, FINRA's internal control over financial reporting as of December 31, 2016, 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 26, 2017 expressed an unqualified opinion thereon.

Ernst + Young LLP

Tysons, Virginia
June 26, 2017

FINRA Consolidated Balance Sheets

(In millions)

	December 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 332.4	$ 319.1
Investments:		
Trading, at fair value	693.7	873.8
Available-for-sale, at fair value	278.8	56.7
Receivables, net	127.6	123.5
Investments receivable	25.7	3.4
Other current assets	19.0	27.2
Total current assets	1,477.2	1,403.7
Property and equipment:		
Land, buildings and improvements	129.1	145.9
Data-processing equipment and software	243.0	247.8
Furniture, equipment and leasehold improvements	72.2	104.5
	444.3	498.2
Less accumulated depreciation and amortization	(332.8)	(377.3)
Total property and equipment, net	111.5	120.9
Other investments	716.2	723.4
Other assets	27.3	29.6
Total assets	$2,332.2	$2,277.6

See accompanying notes.

FINRA Consolidated Balance Sheets (continued)

(In millions)

	December 31, 2016	December 31, 2015
Liabilities and equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 30.2	$ 49.5
Accrued personnel and benefit costs	190.6	192.6
Deferred revenue	67.1	68.6
Deposits and renewals	77.8	71.4
Investments payable	26.4	39.5
Other current liabilities	7.4	6.5
SEC fee payable	173.7	145.3
Total current liabilities	573.2	573.4
Accrued pension and other postretirement benefit costs	147.5	192.1
Deferred revenue	12.8	12.8
Long-term debt	15.5	17.3
Other liabilities	31.5	31.7
Total liabilities	780.5	827.3
Equity	1,633.7	1,576.0
Accumulated other comprehensive income (loss)		
Unrealized gain on available-for-sale investments	0.7	0.1
Net unrecognized employee benefit plan amounts	(82.7)	(125.8)
Total accumulated other comprehensive loss	(82.0)	(125.7)
Total equity	1,551.7	1,450.3
Total liabilities and equity	$2,332.2	$2,277.6

See accompanying notes.

FINRA Consolidated Statements of Operations

(In millions)

	Years Ended December 31,	
	2016	2015
Revenues		
Operating revenues		
Regulatory revenues	$ 446.0	$ 444.9
User revenues	183.3	218.1
Contract services revenues	102.8	125.5
Transparency services revenues	68.2	63.8
Dispute resolution revenues	40.7	41.0
Other revenues	3.6	5.4
Total operating revenues	844.6	898.7
Fines	173.8	93.8
Activity assessment revenues	507.1	445.9
Total revenues	1,525.5	1,438.4
Activity assessment cost of revenues	(507.1)	(445.9)
Net revenues	1,018.4	992.5
Expenses		
Compensation and benefits	699.4	688.7
Professional and contract services	158.2	176.0
Computer operations and data communications	56.5	50.5
Occupancy	38.2	37.5
Depreciation and amortization	21.2	25.1
General and administrative	63.9	60.3
Total expenses	1,037.4	1,038.1
Interest and dividend income	31.4	28.2
Operating income (loss)	12.4	(17.4)
Other income (expense)		
Net realized and unrealized investment gains (losses)	17.1	(7.4)
Equity earnings (losses) from other investments	29.7	(13.5)
Other expense	(1.5)	(1.2)
Net income (loss)	$ 57.7	$ (39.5)

See accompanying notes.

FINRA Consolidated Statements of Comprehensive Income (Loss)

(In millions)

	Years Ended December 31,	
	2016	2015
Net income (loss)	$ 57.7	$(39.5)
Change in unrealized gain or loss on available-for-sale investments	0.6	(3.1)
Employee benefit plan adjustments	43.1	18.5
Comprehensive income (loss)	$101.4	$(24.1)

See accompanying notes.

FINRA Consolidated Statements of Changes in Equity

(In millions)

	Equity	Accumulated Other Comprehensive Income (Loss): Unrealized Gain on Available-for-Sale Investments	Accumulated Other Comprehensive Income (Loss): Net Unrecognized Employee Benefit Plan Amounts	Total
Balance, January 1, 2015	$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
Comprehensive income	57.7	0.6	43.1	101.4
Balance, December 31, 2016	$1,633.7	$ 0.7	$ (82.7)	$1,551.7

See accompanying notes.

FINRA Consolidated Statements of Cash Flows

(In millions)

	Years Ended December 31,	
	2016	2015
Reconciliation of net income (loss) to cash provided by (used in) operating activities		
Net income (loss)	$ 57.7	$(39.5)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
Depreciation and amortization	21.2	25.1
Net realized and unrealized investment (gains) losses	(17.1)	7.4
Distributed and undistributed equity returns from other investments	6.6	13.5
Bad debt expense	6.4	3.4
Loss on disposal of property, plant and equipment	2.3	—
Net change in operating assets and liabilities, net of acquisitions and dispositions:		
Receivables, net	(10.5)	12.5
Other current assets	8.2	2.0
Other assets	(2.3)	(4.8)
Accounts payable and accrued expenses	(17.7)	15.1
Accrued personnel and benefit costs	(2.0)	8.9
Deferred revenue	(1.5)	(1.3)
Deferred contribution income	—	(2.4)
Deposits and renewals	6.4	(18.5)
SEC fee payable	28.4	(28.5)
Other current liabilities	—	0.3
Accrued pension and other postretirement benefit costs	(1.5)	(5.2)
Other liabilities	(0.2)	(3.1)
Net cash provided by (used in) operating activities	$ 84.4	$(15.1)

See accompanying notes.

FINRA Consolidated Statements of Cash Flows (continued)

(In millions)

	Years Ended December 31,	
	2016	2015
Cash flow from investing activities		
Net purchases of trading securities	$ (53.1)	$(121.3)
Proceeds from redemptions of available-for-sale investments	2.5	39.7
Purchases of available-for-sale investments	(8.8)	(51.7)
Return of capital and proceeds from redemptions from other investments	0.1	0.3
Real estate acquisition	—	(18.1)
Net purchases of property and equipment	(10.9)	(8.9)
Net cash used in investing activities	(70.2)	(160.0)
Cash flow from financing activities		
Change in donor-restricted and other restricted cash	—	(3.4)
Proceeds from borrowing on long-term debt	—	18.0
Principal payment on long-term debt	(0.9)	(0.7)
Net cash (used in) provided by financing activities	(0.9)	13.9
Increase (decrease) in cash and cash equivalents	13.3	(161.2)
Cash and cash equivalents at beginning of year	319.1	480.3
Cash and cash equivalents at end of year	$332.4	$ 319.1

See accompanying notes.

FINRA 2016 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 a self-regulatory organization (SRO) for brokerage firms doing business with the public in the United States. We regulate the activities of U.S. broker-dealers and perform market regulation pursuant to our own statutory responsibility and under contract for certain exchanges. Our statutory regulatory functions include on-site 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 potential market manipulation and other rule violations. We provide a heightened and expedited review of allegations of serious fraud 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 services 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), the Chicago Board Options Exchange and the C2 Options Exchange (CBOE and C2), 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 Investors Exchange (IEX), the Miami International Securities Exchange (MIAX), and the Boston Options Exchange (BOX). 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, broker-dealers and individual brokers. We also provide dispute resolution services for several exchanges through contractual agreements, thereby offering consistent procedures and the uniformity of a single forum for the resolution of securities-industry related disputes.

We provide technology-driven registration, testing and continuing education, and other regulatory services, as well as essential operations and support services to firms, other 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 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

FINRA 2016 Notes to Consolidated Financial Statements

1. ORGANIZATION AND NATURE OF OPERATIONS (CONTINUED)

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 debt and marketable equity securities as trading, available-for-sale or held-to-maturity based on the type of security and our intent and ability to sell or to hold the securities. We have designated our investments in debt and marketable equity securities as either trading or available-for-sale. Trading securities are carried at fair value, with changes in fair value recorded as a component of net realized and unrealized investment gains (losses) in the consolidated statements of operations. We present cash flows from purchases and sales of trading securities as investing activities based on the nature and purpose for which the securities were acquired. 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 is a limited partner in a private investment fund, which we account for under the equity method. We also have residual investments in hedge funds, which we account for under the equity method. The application of the equity method to the private investment fund and our investments in hedge funds, including our related equity earnings (losses), 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 intent to hold, 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, CBOE and C2, BATS and other exchanges. The consolidated financial statements present receivables net of an allowance for uncollectible accounts. As of December 31, 2016 and 2015, an allowance for uncollectible accounts of $13.4 million and $10.6 million was 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, 2016 and 2015, primarily related to fines and arbitration activities. The allowance is increased by the provision for bad debts, which is charged against operating results and decreased by the amount of charge-offs, net of recoveries. We base the amount charged against operating results on several factors, including a periodic assessment of the 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 and amortization as follows:

Asset category	Depreciation/amortization method	Estimated useful lives
Buildings and improvements	Straight-line	10 to 40 years
Data-processing equipment and software	Straight-line	2 to 5 years
Furniture and equipment	Straight-line	5 to 10 years
Leasehold improvements	Straight-line	Term of applicable lease, including any extension periods at our option

Depreciation and amortization expense for property and equipment totaled $13.8 million and $16.5 million for 2016 and 2015.

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 $0.1 million and $2.9 million as of December 31, 2016 and 2015, within total property and equipment, net in the consolidated balance sheets. There were no net additions to capitalized software in 2016 or 2015. Amortization of capitalized internal computer software costs totaled $2.8 million and $4.6 million for 2016 and 2015, and was included in depreciation and amortization in the consolidated statements of operations.

IMPAIRMENT OF LONG-LIVED ASSETS

We review our long-lived assets for impairment 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 2016 and 2015, 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 following chart reflects our estimated service periods and the basis for those estimated service periods for each deferred fee:

Fee type	Service period	Estimation basis
Mediation fees	4 months	Average turnaround time for a mediation case
Arbitration fees	14 months	Average turnaround time for an arbitration case
Registration fees	4 years	Average time individuals spend at a single firm
Firm application fees	12 years	Average lifespan for all member firms

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 markets, the NYSE markets, CBOE and C2, the BATS 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

fees for the mortgage licensing system FINRA developed and deployed to SRR. We recognize contract services revenues as the services are provided according to the terms and timeframes associated with each individual contract.

Transparency Services Revenues

Transparency services revenues represent amounts charged for the use of TRACE. 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. 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.

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 turnaround time for an arbitration case (14 months). Mediation filing fees are recognized over the average turnaround time for 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 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 and approved by our Finance, Operations and Technology Committee and 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 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, 2016 and 2015, we had \$43.9 million and \$37.6 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

CLOUD COMPUTING COSTS

We account for our cloud computing arrangement as a service contract and expense applicable costs as incurred. As our hosting arrangement does not give us the contractual right to the software at any time during the hosting period without penalty, we are not deemed to have a software license. Cloud computing costs totaled $20.9 million and $14.0 million for the years ended December 31, 2016 and 2015, and were included in computer operations and data communications in the consolidated statement of operations.

PENSION AND OTHER POSTRETIREMENT LIABILITIES

FINRA provides two non-contributory defined benefit pension plans for the benefit of eligible employees. The non-contributory defined benefit plans consist of a qualified Employees Retirement Plan (ERP) and a non-qualified Supplemental Executive Retirement Plan (SERP). Both plans are now closed to new participants. We also offer access to retiree medical coverage for eligible 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 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.

The actuarial assumptions that we use in determining pension and other postretirement liabilities and expenses may differ materially from actual results due to changing market and economic conditions, as well as early withdrawals by terminating plan participants. While we believe that the assumptions used are appropriate, differences in actual experience or changes in assumptions related to the ERP may materially affect our financial position. A 25 basis-point increase (decrease) in the discount rate assumption as of December 31, 2016, would cause the ERP projected benefit obligation to decrease (increase) by approximately $18.5 million.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. FINRA's investment portfolio consists of investments in debt securities, a mutual fund containing equity securities and other investments (including a private investment). The Foundation's investment portfolio consists of a mutual fund, a commingled fund and a private investment. Our consolidated limited partnership investment represents approximately 42 percent of our total invested assets, excluding cash, as of December 31, 2016.

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

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 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 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. In 2016, the FASB continued to issue various technical improvements through various ASUs, including principal versus agent considerations, identifying performance obligations and licensing. FINRA does not intend to early adopt the ASU, and we are currently performing a detailed analysis of our revenue streams and service contracts in order to determine the potential impact that the ASU will have on our 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 operations in a manner similar to today's accounting. The ASU also eliminates today's real estate-specific provisions for all entities. For lessors, the ASU modifies the classification criteria and the accounting for sales-type and direct financing leases. The ASU is effective for FINRA on January 1, 2020. Early adoption is permitted. We do not intend to early adopt the ASU, and we are currently assessing the potential impact that the ASU will have on our consolidated financial statements.

In July 2016, the FASB issued the final guidance on credit losses, ASU 2016–13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which will significantly change how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. Entities will be required to use a new forward-looking "expected loss" model and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. This approach will apply to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt securities, net investments in leases and off-balance-sheet credit exposures. The ASU will also require significantly more disclosures to be made in an entity's financial statements. The ASU is effective for FINRA on January 1, 2021. Early adoption is permitted. We do not intend to early adopt the ASU, and we are currently assessing the potential impact that the ASU will have on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016–15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which clarifies how entities should classify certain cash receipts, such as distributions received from equity method investees, and cash payments on the statement of cash flows. The ASU is effective for FINRA on January 1, 2019. Early adoption is permitted. We do not intend to early adopt the ASU, and we are currently assessing the potential impact that the ASU will have on our consolidated financial statements.

The following accounting pronouncements were also recently issued:

- ASU No. 2015–02, *Consolidations (Topic 810): Amendments to the Consolidation Analysis,* effective for FINRA in 2017; and
- ASU No. 2016–16, *Income Taxes (Topic 710): Intra-Entity Transfers of Assets Other Than Inventory;* effective for FINRA in 2019.

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.

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

- 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*, effective in 2016;
- 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*; effective in 2016. FINRA has adopted this ASU prospectively;
- 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*; effective in 2017. FINRA early adopted this ASU in 2015; and
- ASU No. 2015–17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*; effective in 2018. FINRA early adopted this ASU prospectively in 2015.

3. DEFERRED REVENUE

The following is a summary of amounts that we included in current and non-current deferred revenue as of December 31, 2016, and the years over which we will recognize those amounts:

	Registration	Arbitration	Annual	Total
		(in millions)		
Year ending December 31,				
2017	$ 7.1	$4.9	$55.1	$67.1
2018	5.2	—	—	5.2
2019	3.3	—	—	3.3
2020	1.4	—	—	1.4
2021 and thereafter	2.9	—	—	2.9
	$19.9	$4.9	$55.1	$79.9

The following is a summary of activity in our current and non-current deferred revenue for the periods ended December 31, 2016 and 2015, for all revenue arrangements. Annual 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	Total
		(in millions)		
Balance as of January 1, 2016	$20.0	$ 5.1	$ 56.3	$ 81.4
Additions	8.8	8.9	312.6	330.3
Amortization	(8.9)	(9.1)	(313.8)	(331.8)
Balance as of December 31, 2016	$19.9	$ 4.9	$ 55.1	$ 79.9

	Registration	Arbitration	Annual	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

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) mutual and commingled funds; 5) other investments (including private investments); and 6) other financial instruments. We have classified our marketable investments as trading or available-for-sale based on their nature, and our intent and ability to sell or to hold the securities.

Our investment policy strives to preserve principal, in real terms, while seeking to earn a long-term rate of return commensurate with the degree of risk deemed appropriate by the Board. We execute our investment strategy through a separately managed account and direct investments. During 2016, our active trading portfolio was managed by an

4. INVESTMENTS (CONTINUED)

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, 2016	December 31, 2015
	(in millions)	
Trading investments	$ 693.7	$ 873.8
Available-for-sale investments: FINRA	229.1	7.2
Available-for-sale investments: Foundation	49.7	49.5
Other investments:		
Limited partnership: FINRA	692.6	698.8
Limited partnership: Foundation	23.1	24.0
Cost method investments	0.3	0.3
Hedge funds	0.2	0.3
Total other investments	716.2	723.4
Total	$1,688.7	$1,653.9

Trading Investments

Our unrealized loss for the period on trading securities held at December 31, 2016 and 2015, was $16.6 million and $25.8 million.

During 2016, we made an investment in a mutual fund classified as an available-for-sale investment in the amount of $218.8 million, $213.5 million of which represented a transfer of holdings in trading investments, with the remaining $5.3 million in cash. Only the cash portion of this transaction is reflected in the accompanying consolidated statements of cash flows.

Available-for-Sale Investments

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

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
		(in millions)		
As of December 31, 2016:				
FINRA:				
Mutual funds	$229.8	$0.4	$(1.1)	$229.1
Foundation:				
Mutual fund	$ 24.0	$1.1	$ —	$ 25.1
Commingled fund	24.3	0.3	—	24.6
Total Foundation	$ 48.3	$1.4	$ —	$ 49.7
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

4. INVESTMENTS (CONTINUED)

For 2016 and 2015, 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:

	2016	2015
	(in millions)	
Gross investment gains recognized	$0.2	$3.5
Gross investment losses recognized	—	0.2
Amounts reclassified from accumulated other comprehensive income (loss)	0.1	2.8

Other-Than-Temporary Declines in Fair Value

In 2016 and 2015, we did not record any impairment charges related to our mutual and commingled funds. As of December 31, 2016 and 2015, we did not identify any events or circumstances that would indicate the value of our mutual and commingled funds should be impaired. Should there be any impairment charges related to other-than-temporary declines in the fair value of available-for-sale investments, they would be reflected in net realized and unrealized investment gains (losses) in the consolidated statements of operations.

Temporary Declines in Fair Value

As of December 31, 2016, the Foundation had no available-for-sale investments with aggregate unrealized losses. 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, 2016, FINRA had one mutual fund with a fair value of $221.5 million, reflecting unrealized losses of $1.1 million less than six months in duration. As of December 31, 2015, FINRA had no available-for-sale investments with aggregate unrealized losses.

Other Investments

We have an investment in one limited partnership accounted for under the equity method. 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. Additionally, FINRA has remaining interests in hedge funds accounted for under the equity method.

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, real assets 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, because our ownership interest is greater than 20 percent, 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.

4. INVESTMENTS (CONTINUED)

The limited partnership investment is included in other investments in the consolidated balance sheets. The gains (losses) are included in equity earnings (losses) from other investments in the consolidated statements of operations. The following table summarizes 2016 and 2015 activity related to the limited partnership for both FINRA and the Foundation.

	Investment balance as of December 31,		Gains (losses) for the years ended December 31,		Redemptions
	2016	2015	2016	2015	2016
			(in millions)		
Limited partnership: FINRA	$692.6	$698.8	$28.8	$(12.5)	$35.0
Limited partnership: Foundation	23.1	24.0	0.9	(1.0)	1.9
Total	$715.7	$722.8	$29.7	$(13.5)	$36.9

There were no redemptions in 2015. Other than the assignment to the Foundation during 2015, neither FINRA nor the Foundation made any contributions to this partnership during 2016 and 2015. The maximum exposure to loss related to this partnership for FINRA and the Foundation is limited to $692.6 million and $23.1 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 was 63.0 percent at both December 31, 2016 and 2015.

The following table shows our ownership interest in all equity method investments (limited partnership and hedge funds) as of and for the periods ended December 31, 2016 and 2015.

	2016	2015
Total net assets (in billions of dollars)	$ 8.0	$ 7.5
Total gains (losses) from operations (in millions of dollars)	$776.7	$(732.2)
Weighted ownership interest in all equity method investees (percentage)	8.9%	9.7%

We did not recognize any impairment charges on our equity method investments for the years ended December 31, 2016 and 2015.

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.

5. FAIR VALUE MEASUREMENT (CONTINUED)

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.

The following table presents information about our assets that are measured at fair value on a recurring basis as of December 31, 2016, and indicates the fair value hierarchy of the valuation techniques utilized to determine fair value:

		Fair Value Measurement at December 31, 2016 Measured Using	
Description	Total carrying amount in balance sheet December 31, 2016	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			
FHLMC	$104.9	$ —	$104.9
FNMA	47.1	—	47.1
GNMA	13.7	—	13.7
Corporate debt securities			
Banking	122.5	—	122.5
Consumer non-cyclical	64.7	—	64.7
Industrial	59.0	—	59.0
Utility	44.4	—	44.4
Consumer cyclical	41.7	—	41.7
Insurance	35.3	—	35.3
Communication	28.9	—	28.9
Other financial institutions	27.5	—	27.5
Asset-backed securities	51.4	—	51.4
Government securities	21.0	—	21.0
Mutual funds	31.6	31.6	—
Available-for-sale securities			
Mutual funds			
U.S. equity	246.6	246.6	—
Other	7.6	7.6	—
Commingled fund	24.6	—	24.6
Total assets	$972.5	$285.8	$686.7

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			
FNMA	$ 63.0	$ —	$ 63.0
GNMA	31.7	—	31.7
FHLMC	30.8	—	30.8
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

Changes in the fair value of trading securities are recorded as a component of net realized and unrealized investment gains (losses) 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, 2016 and 2015, 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

FINRA no longer holds any equity securities in our trading portfolio as of December 31, 2016. In 2015, our equity securities consisted of common stocks of large corporations in a variety of industry sectors, primarily in the United States. These securities were listed on major security exchanges and were valued at their closing prices on the balance sheet date. Accordingly, the valuation of these securities was categorized in Level 1 of the fair value hierarchy.

Mutual Funds

All of the mutual funds classified as trading securities, 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 high quality companies that have both the ability and the commitment to grow their dividends over time.

These investments are valued at the publicly quoted net asset value per share which is computed as of the close of business on the balance sheet date. Accordingly, the valuation of these 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; however, units are not traded on an active exchange. As the fair value per unit is readily determinable, the valuation of these securities is categorized in Level 2 of the fair value hierarchy.

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).

6. INCOME TAXES (CONTINUED)

Unrelated Business Income

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

In 2013, management performed an evaluation of the net operating loss (NOL) previously reported under New NASD Holding, Inc. (NAHO), which at that time was 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, 2016 and 2015, FINRA had federal unrelated business loss carryforwards of $54.2 million and $57.6 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.

The following table summarizes the 2016 and 2015 activity related to the federal deferred tax asset and valuation allowance:

	2016	2015
	(in millions)	
Deferred tax asset related to NOLs	$ 18.4	$ 19.6
Other deferred tax assets	0.6	0.5
Valuation allowance for deferred tax assets	(19.0)	(20.1)
Net deferred tax assets	$ —	$ —
NOL carryforwards	$ 54.2	$ 57.6

There were no other significant deferred tax assets or liabilities related to unrelated business income. The federal and state 2016 and 2015 income tax provision of $1.5 million and $1.2 million primarily represented the net change in deferred tax assets related to unrelated business loss carryforwards during the year. The income tax provision was included in other expense in the consolidated statements of operations.

We did not have any significant unrelated business income taxes payable or refundable in 2016 or 2015.

Uncertain Tax Positions

U.S. GAAP provides a two-step approach for evaluating tax positions. Recognition (step 1) occurs when an entity concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination. Measurement (step 2) occurs when the tax benefit is measured as the largest amount of benefit, determined on a cumulative probability basis, that is more likely than not to be realized upon ultimate settlement. From 2013 through 2016, 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 $1.5 million as of December 31, 2016 and $0.4 million as of December 31, 2015.

7. EMPLOYEE BENEFIT LIABILITIES

BENEFIT PLANS

The following table summarizes the benefit plans offered by FINRA.

Plan	Eligible employees
Defined benefit ERP	As of January 1, 2017, less than 700 current employees not previously phased out of the plan (closed to new participants)
Defined benefit SERP	Less than 10 current senior executives not previously phased out of the plan in 2011 (closed to new participants)
Retiree medical plan	Eligible active employees, retirees and their dependents
Postretirement life insurance benefit plan	Less than 150 retirees who opted into the plan (closed to new participants)
Voluntary contributory savings plans	All active employees
Defined contribution component to the savings plan	Active employees not participating in the defined benefit ERP
Deferred compensation plan for officers	Active officer-level employees (vice president and above)
Supplemental defined contribution plan for senior officers	Active senior executives not participating in the defined benefit SERP

A brief description of the plans follows.

Defined Benefit ERP and SERP

We provide two non-contributory defined benefit pension plans to eligible employees, including a qualified ERP and a non-qualified SERP. The benefits are based primarily on years of service and employees' average compensation during the highest 60 consecutive months of employment. Both plans are now closed to new participants.

On July 15, 2016, the Board approved the decision to transition approximately 1,100 ERP participants who did not meet certain age and service criteria to the defined contribution component to the savings plan effective January 1, 2017. ERP benefits for the transitioned participants accrued through December 31, 2016. The total amount of benefits these participants accumulated in the ERP was frozen as of December 31, 2016, and will be made available to them upon retirement. Beginning January 1, 2017, these participants started receiving contributions in the defined contribution component to the savings plan. Some transitioned participants may receive transition credits in the form of additional contributions, if they meet certain age and service criteria. As a result of this transition decision, approximately 700 participants remain in the ERP as of January 1, 2017.

Retiree Medical Benefit Plan

The Company offers 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 provides 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)

Postretirement Life Insurance Benefit Plan

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

Voluntary Contributory Savings Plan

FINRA maintains a voluntary contributory savings plan for eligible employees. Employees are immediately eligible to make elective contributions to the plan up to specified plan limits. Employees are also eligible to receive from FINRA a corresponding dollar-for-dollar matching contribution on any elective contribution made by the participant to the savings plan, up to a maximum of 4 percent of base compensation, plus 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 2016 and 2015 was $25.2 million and $23.5 million, which was included within compensation and benefits expense in the consolidated statements of operations. The savings plan expense included a discretionary 2 percent match totaling $7.3 million and $6.9 million for 2016 and 2015, and was included within compensation and benefits expense in the consolidated statements of operations. The retiree medical match for 2016 and 2015 totaled $2.1 million and $1.9 million, which was included within compensation and benefits expense in the consolidated statements of operations.

On July 15, 2016, the Board approved a change to the savings plan, effective January 1, 2017, whereby the current basic match of 4 percent, the discretionary match of up to 2 percent and the retiree medical match will be replaced with a straightforward 6 percent match of eligible base salary contributed by a participant.

Defined Contribution Component to the Savings Plan

FINRA also offers a defined contribution component to the savings plan to all new hires since January 1, 2011, as well as the ERP participants who elected during 2011 to participate in the defined contribution component instead of the ERP beginning on January 1, 2012. 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 over 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 2016 and 2015 were $9.1 million and $7.6 million, which were included within compensation and benefits expense in the consolidated statements of operations. As previously mentioned, effective January 1, 2017, approximately 1,100 ERP participants who did not meet certain age and service criteria as of December 31, 2016 were transferred to the defined contribution component to the savings plan.

Deferred Compensation Plan for Officers

FINRA maintains a deferred compensation plan for officers under the provisions of Section 457(b) of the IRC. Eligible employees may contribute to the plan and, at its discretion, FINRA may make additional contributions to the plan. FINRA placed the assets of this plan into an irrevocable rabbi trust that the Company consolidates. As of December 31, 2016, $17.4 million of investments and $17.4 million of amounts due to plan participants were 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, $15.6 million of investments and $15.6 million of amounts due to plan participants were 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, 2016 and 2015, FINRA made no additional contributions to this plan.

7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)

Supplemental Defined Contribution Plan for Senior Officers

FINRA maintains a supplemental defined contribution plan for the Company's senior officers and makes annual contributions based on salary and a portion of incentive compensation. Contributions and earnings vest upon the earlier of 1) the end of each third year of participation following such contribution; 2) attainment of age 62; 3) death; or 4) a disabled participant's termination of employment. FINRA placed the assets of this plan into an irrevocable rabbi trust that the Company consolidates. As of December 31, 2016, $14.2 million of investments and $14.2 million of amounts due to plan participants were 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, 2015, $14.3 million of investments and $14.3 million of amounts due to plan participants were 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.

PLAN DISCLOSURES

The following tables disclose information related to our "Pension Plans," which include the ERP and SERP described above, and "Other Plans," which include the retiree medical benefit and postretirement life insurance benefit plans described above. The reconciliation of the projected benefit obligation, the change in the fair value of plan assets for the periods ended December 31, 2016 and 2015, and the accumulated benefit obligation at December 31, 2016 and 2015, were as follows:

	Pension Plans		Other Plans	
	2016	2015	2016	2015
	(in millions)			
Change in benefit obligation				
Benefit obligation at beginning of period	$538.7	$ 533.6	$ 70.4	$ 66.8
Service cost	29.2	32.7	4.2	4.5
Interest cost	21.9	21.6	3.1	2.7
Plan amendments	—	0.1	—	—
Actuarial losses (gains)	54.8	(34.6)	(8.3)	(2.2)
Benefits paid	(15.1)	(14.7)	(1.8)	(1.4)
Curtailment gain due to employee transition	(80.2)	—	—	—
Benefit obligation at end of period	$549.3	$ 538.7	$ 67.6	$ 70.4
Change in plan assets				
Fair value of plan assets at beginning of period	$408.5	$ 376.4	$ —	$ —
Actual return on plan assets	26.8	(3.2)	—	—
Company contributions	42.3	50.0	1.8	1.4
Benefits paid	(15.1)	(14.7)	(1.8)	(1.4)
Fair value of plan assets at end of period	$462.5	$ 408.5	$ —	$ —
Underfunded status of the plan	$ (86.8)	$(130.2)	$(67.6)	$(70.4)
Accumulated benefit obligation	$492.1	$ 418.9		

7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)

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

	Pension Plans		Other Plans	
	2016	2015	2016	2015
	(in millions)			
Current	$ 5.3	$ 6.1	$ 1.6	$ 2.4
Noncurrent	81.5	124.1	66.0	68.0
Net amount at December 31	$86.8	$130.2	$67.6	$70.4

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

The Company does not expect any plan assets to be returned to it during the year ending December 31, 2017.

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

	Pension Plans		Other Plans	
	2016	2015	2016	2015
	(in millions)			
Service cost	$ 29.2	$ 32.7	$4.2	$4.5
Interest cost	21.9	21.6	3.1	2.7
Expected return on plan assets	(24.1)	(22.4)	—	—
Recognized net actuarial losses	4.5	5.4	0.3	0.5
Prior service cost recognized	0.1	0.2	1.4	1.4
Curtailment expense as a result of the employee transition	0.4	—	—	—
Total	$ 32.0	$ 37.5	$9.0	$9.1

The assumed health care cost trend rate to be used for the next year to measure the expected cost of other plan liabilities is 8.3 percent, with a gradual decline to 5.5 percent by the year 2021. This estimated trend rate is subject to change. The assumed health care cost trend rate can have a significant effect on the amounts reported. However, a 1-percentage-point change in the assumed health care cost trend rate would not have a material impact on the benefit obligation or service and interest components of net periodic benefit cost.

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

	Pension Plans		Other Plans	
	2016	2015	2016	2015
	(in millions)			
Unrecognized net actuarial loss	$(72.5)	$(105.1)	$ (3.9)	$(12.5)
Unrecognized prior service cost	(0.2)	(0.7)	(6.1)	(7.5)
Net amount at December 31	$(72.7)	$(105.8)	$(10.0)	$(20.0)

7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)

The following amounts were included in other comprehensive income (loss) during 2016:

	Incurred but Not Yet Recognized in Net Periodic Benefit Cost	Reclassification Adjustment for Prior Period Amounts Recognized
	(in millions)	
Actuarial gain		
Pension plans	$28.1	$4.5
Other plans	8.3	0.3
	36.4	4.8
Prior service cost		
Pension plans	0.4	0.1
Other plans	—	1.4
	0.4	1.5
	$36.8	$6.3

The estimated amounts to be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost during 2017 based on December 31, 2016, plan measurements were as follows:

	Pension Plans	Other Plans
	(in millions)	
Unrecognized prior service costs	$0.1	$1.4
Unrecognized actuarial losses	2.1	—

The weighted-average assumptions used to determine benefit obligations for the years ended December 31, 2016 and 2015, were as follows:

	Pension Plans		Other Plans	
	2016	2015	2016	2015
Discount rate	4.25%	4.50%	4.05%	4.10%
Rate of compensation increase	3.89%	3.89%	—	—

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

	Pension Plans		Other Plans	
	2016	2015	2016	2015
Discount rate	4.50%	4.20%	4.10%	3.75%
Rate of compensation increase	3.89%	3.89%	—	—
Expected return on plan assets	6.00%	6.25%	—	—

The assumptions above are used to develop the benefit obligations at year end and to develop the net periodic benefit cost for the subsequent year. Therefore, the assumptions used to determine benefit obligations are established at each year end while the assumptions used to determine net periodic benefit cost for each year are established at the end of each previous year. The expected return on plan assets that will be used in the determination of 2017 net periodic benefit cost is 5.75 percent.

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

7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)

PLAN ASSETS

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

The trust related to the SERP obligation is included in our consolidated financial statements. As of December 31, 2016 and 2015, $7.6 million and $7.2 million of investments were included in available-for-sale securities in the consolidated balance sheets, representing the amounts contributed by FINRA, plus earned income and market value gains, less distributions to retirees and market value losses.

The investment policy and strategy of the ERP assets are established by the Pension Committee, which is composed of a cross-representative body of FINRA officers and assisted by outside counsel, investment advisors and actuaries. The Management Compensation and Investment Committees of the Board have oversight responsibilities with respect to the ERP and its assets. The investment policy and strategy strive to achieve a rate of return on plan assets that will, over the long term, in concert with Company contributions, fund the plan's liabilities to provide for required benefits. The ERP assets are allocated among a diversified portfolio of equity investments, fixed income securities, alternative investments and cash equivalents with both domestic and international strategies. Derivatives are permitted on a limited scale for hedging or creation of market exposures. Direct debt and equity interests are prohibited in any broker-dealer, exchange, contract market, regulatory client, alternative or electronic trading system, or 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, 2016 and 2015:

	2016 Target Allocation	2016	2015
Equity securities:			
U.S. equity	18.0%	17.7%	18.0%
Non-U.S. equity	16.0%	16.2%	15.9%
Global equity	12.0%	16.1%	11.6%
Fixed income securities:			
U.S. fixed income	31.0%	35.0%	31.4%
Global fixed income	10.0%	9.9%	10.0%
Alternative investments	11.0%	3.1%	10.9%
Cash equivalents	2.0%	2.0%	2.2%
Total	100.0%	100.0%	100.0%

The allocation percentages at December 31, 2016, vary from the targets as a result of the elimination of an alternative fund from plan assets. Accordingly, revisions to the asset allocation policy and guidelines will be addressed by the Pension Committee in 2017.

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, 2016 and 2015, by asset category, and indicate the fair value hierarchy of the valuation techniques utilized to determine fair value:

	Fair Value Measurement at December 31, 2016 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 money market fund	$ 10.2	$ —	$ 10.2
Corporate stocks	18.2	—	18.2
Common/collective trusts (a):			
Equity	—	169.4	169.4
Fixed income	—	45.6	45.6
Mutual funds:			
Equity	42.6	—	42.6
Fixed income	174.2	—	174.2
Total assets in the fair value hierarchy	245.2	215.0	460.2
Partnership/joint venture interests measured at net asset value (b):	—	—	2.3
Total	$245.2	$215.0	$462.5

	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 (c)	$ —	$ 9.8	$ 9.8
Corporate stocks	15.7	—	15.7
Common/collective trusts (a):			
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 (b):	—	—	2.7
Total	$225.1	$180.7	$408.5

(a) Includes both domestic and international equity and fixed income securities. Fair values are readily available and have been estimated using the net asset value per unit of the funds. Investment managers are not constrained by any particular investment style and may invest in either "growth" or "value" securities. Units of this investment are valued daily and a unit-holder's ability to transact in the trusts' units occurs daily; however, units are not available on an active exchange. As the fair value per unit is readily determinable, the valuation of these securities is categorized in Level 2 of the fair value hierarchy.

7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)

(b) In accordance with ASC Subtopic 820–10, subsequent to the adoption of ASU 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 had been funded as of both December 31, 2016 and 2015.

(c) Includes non-government fixed income securities, government obligations, money market instruments and repurchase agreements. Fair values are readily available and 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; however, units are not available on an active exchange. As the fair value per unit is readily determinable, the valuation of these securities is categorized in Level 2 of the fair value hierarchy.

For the years ended December 31, 2016 and 2015, 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.

EXPECTED FUTURE BENEFIT PAYMENTS

We measure our plans as of the end of each fiscal year. The ERP's funding policy is to fund at least 100 percent of the ERP's funding target liability as set forth by the Internal Revenue Service. In 2017, we expect to contribute $38.5 million to the ERP. We do not expect to make any contributions to the SERP in 2017. 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,		
2017	$ 26.0	$ 2.8
2018	25.8	2.9
2019	26.0	4.6
2020	32.6	4.8
2021	32.6	5.8
2022 through 2026	180.7	40.1
Total	$323.7	$61.0

8. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following is a summary of changes in accumulated other comprehensive income (loss) as of December 31, 2016 and 2015.

	Unrealized gain on available-for-sale investments	Net unrecognized employee benefit plan amounts	Total
		(in millions)	
Balance, January 1, 2015	$ 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)
Other comprehensive income (loss) before reclassifications	0.7	36.8	37.5
Amounts reclassified from accumulated other comprehensive (income) loss (a)	(0.1)	6.3	6.2
Net current-period other comprehensive income	0.6	43.1	43.7
Balance, December 31, 2016	$ 0.7	$ (82.7)	$ (82.0)

(a) Reclassified amounts for gains on available-for-sale investments were recorded in net realized and unrealized investment gains (losses) in the consolidated statements of operations — see Note 4, "Investments," for additional information. Reclassified net unrecognized employee benefit plan amounts were included as a component of net periodic benefit cost and recorded in 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 $25.2 million and $23.0 million for the years ended December 31, 2016 and 2015, which was included in occupancy expense in the consolidated statements of operations.

Future minimum lease payments under non-cancelable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 2016:

Year ending December 31,	*(in millions)*
2017	$ 29.2
2018	27.6
2019	26.6
2020	21.7
2021	8.8
Remaining years	24.3
Total minimum lease payments	$ 138.2

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, 2016, 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, 2016.

11. SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 26, 2017, the date these financial statements became available to be issued. These financial statements have been approved by management, who has determined that no subsequent event occurred that would require disclosure in the financial statements or accompanying notes.

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