# 2022 FINRA Annual Financial Report

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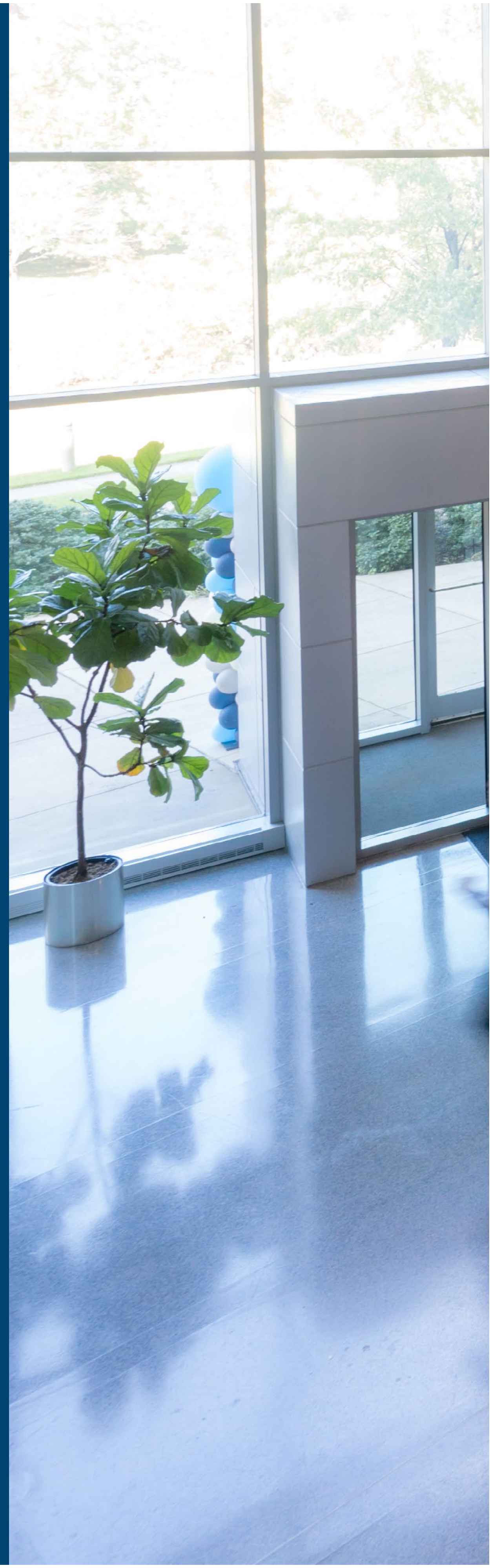


**Robert W. Cook** | President and CEO **Todd T. Diganci** | Chief Financial and Administrative Officer

# A Message From the President and CEO and Chief Financial and Administrative Officer

This 2022 Annual Financial Report—presented in accordance with U.S. generally accepted accounting principles (U.S. GAAP)—and FINRA's previously published 2022 Annual Budget Summary describe how we managed our finances in 2022 to support our mission of protecting investors and promoting market integrity in a manner that facilitates vibrant capital markets. As a not-for-profit, self-regulatory organization whose operations are funded by industry fees, we are guided by a set of published Financial Guiding Principles approved by our Board of Governors (Board).

## Financial Operations in 2022

FINRA reported a net loss of $218.1 million in 2022, compared to net income of $218.8 million in 2021. Our 2022 net loss was driven by investment and operating losses of $166.9 million and $60.2 million, respectively, offset by other income of $9 million.

Our reserve portfolio lost 6.4 percent in 2022. While negative for the year, our portfolio performance was favorable relative to the double-digit declines in the global equity and U.S. investment grade bond markets.

Our operating loss for the year reflected lower revenues and an increase in operating expenses, offset by higher interest and dividend income. Our revenues declined due to a decrease in the number of public offerings and lower Trading Activity Fees. The increase in our operating expenses was driven in part by investments in staff and technology to strengthen our capabilities to fulfill long-standing regulatory responsibilities, address more recent expansions in the scope of our duties, and meet new challenges in the markets. The increased costs also reflect steps we took to manage evolving workforce conditions, including wage inflation and competitive labor markets.

This year's operating loss was expected, and was in line with our multi-year strategic plan that we outlined in 2020. As part of that plan and consistent with our Financial Guiding Principles, in 2022 we intentionally drew down our reserve portfolio to reduce the overall level of our reserves and to allow for fee increases to be phased in over a reasonable period of time.

The key drivers of our 2022 financial performance are discussed more fully in the attached Report.

## Use of Fine Monies in 2022

Our published [Report on Use of 2022 Fine Monies] describes the projects that were supported by 2022 fine monies. In accordance with our Financial Guiding Principles, FINRA only uses fine monies for specific purposes—such as investor education and capital initiatives that enable improved oversight of and compliance by member firms—and only with the approval of the FINRA Board or its Finance, Operations and Technology Committee.

## 2023 Budget and Beyond

FINRA's published 2023 Annual Budget Summary sets forth our financial plans for 2023. The budget reflects our commitment to fully funding our mission and strategically investing in our people and operations to meet our regulatory responsibilities. In developing our annual budget and assessing the level of reserves, the Board considers recent financial performance as well as projected revenues, expenses and overall market conditions for the next several years.

For 2023, we anticipate our operating revenue will increase by approximately 6 percent, and our operating expenses will increase as well, as they did in 2022, for reasons described more fully in the 2023 Annual Budget Summary. We further expect that expenditures will outpace revenues over the next several years, even taking into account fee increases that were filed with the SEC in December 2020 and phased in over three years, beginning in 2022. Accordingly and aligned to our multiyear financial strategic plan, we expect to continue drawing down our reserve portfolio to meet our operating and capital needs, to invest appropriately for the future and to support gradual fee increases. The Board will closely monitor FINRA's financial performance to determine whether these projections remain accurate and whether any additional action is needed to achieve our longer-term financial goals.

Member firms should be aware that the Consolidated Audit Trail, LLC (CAT LLC) has filed with the SEC a proposed funding model to allocate the costs of the Consolidated Audit Trail (CAT) among relevant market participants, including exchanges, FINRA and broker-dealers. If this CAT fee model is approved and becomes effective, FINRA will collect (and pay to CAT LLC) additional fees from member firms related to the cost of CAT, which could occur by late 2023. Additional information will be available once a CAT fee structure has been approved and becomes effective.

We will continue to be guided by our Financial Guiding Principles, and ensure we are prepared to meet the challenges ahead and fulfill our mission of investor protection and market integrity.

Robert W. Cook

**Robert W. Cook**
President and Chief Executive Officer

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

# We enforce compliance with investor protection rules.

- **$54.5*** million in fines
- **$26.2** million in restitution to harmed investors
- **7** firms expelled
- **328** brokers suspended
- **227** brokers barred

***Note:** The 2022 fine amount includes disgorgement awards of $6.4 million.

# 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 systems.

**427** billion

Our technology looks across markets to detect potential fraud. On average, everyday in 2022 we processed 427 billion market events.

**663** fraud

Coordinating closely with the SEC and other federal and state regulators is an important part of our regulatory work. In 2022, we referred 663 fraud and insider trading cases to the SEC and other federal or state law enforcement agencies for prosecution.

## We work to keep investors informed.

### FINRA Investor Education Foundation

Committed $128.6 million for financial capability and fraud prevention initiatives since inception.

### Securities Helpline for Seniors

FINRA launched the Helpline on April 20, 2015, to assist senior and vulnerable investors with questions or concerns about their brokerage accounts and investments. As of December 31, 2022, the Helpline has:

- received more than 27,458 calls from all 50 states and several countries;
- made more than 2,833 referrals to state, federal and international regulators; and
- assisted with the return of more than $8.4 million to investors.

# Management Report on 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 securities markets. Under the oversight of the U.S. Securities and Exchange Commission (SEC), we regulate the activities of U.S. broker-dealers and monitor U.S. securities markets pursuant to our own statutory responsibility and under contract for certain exchanges.

## Our Mission

FINRA is dedicated to protecting investors and safeguarding market integrity in a manner that facilitates vibrant capital markets through comprehensive and effective regulation of the broker-dealer industry.

## Our Regulatory Model

To carry out our mission, FINRA uses a multi-pronged approach that includes rulemaking, supervision, market transparency and education:

**Rulemaking and Guidance**—adopts and interprets rules applicable to securities firms and brokers. FINRA solicits comment on proposed rules from FINRA member firms, investors and other interested parties. FINRA rules are approved by the SEC.

**Dispute Resolution Services**—operates a dispute resolution forum for investors, brokerage firms and their registered employees, and administers arbitrations and mediations.

**Enforcement**—investigates possible misconduct and brings disciplinary actions for violations of securities rules and regulations.

**Market Regulation**—leverages technology to perform sophisticated cross-market surveillance and conduct investigations of trading activity in U.S. equities, options and fixed income markets.

**Member Supervision**—monitors and examines for member compliance with securities laws and rules, and works to detect and address fraud or other misconduct through its member application, risk monitoring, firm examination and investigative programs.

**Credentialing, Registration, Education and Disclosure**—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.

**Transparency Services**—operates facilities that collect and disseminate real-time and historical market information for over-the-counter (OTC) trading in the equity and fixed income markets including the Trade Reporting and Compliance Engine® (TRACE®), and maintains the databases FINRA uses to oversee OTC securities.

**Advertising Regulation**—oversees member firm communications to the public to ensure that they are fair, balanced and not misleading.

**Corporate Financing**—reviews public offerings for the fairness of underwriting terms and reviews retail private placements for potential investor harm.

**Disciplinary Adjudications**—adjudicates disciplinary cases brought by FINRA against FINRA members and appeals from adjudications.

**Investor Education**—provides investors with financial tools and resources; and through the FINRA Investor Education Foundation® (the Foundation), a wholly-owned subsidiary of FINRA, supports important research and financial education initiatives.

**Member Relations and Education**—fosters better understanding of business and regulatory matters among FINRA and member firms, and provides educational programs to assist member firms with compliance.

**Regulatory Economics and Market Analysis**—conducts research and analysis in support of FINRA's rulemaking and policy agendas, and fosters innovation in regulation regarding financial markets, market participants, products and services.

FINRA's Board of Governors (Board) and its committees meet multiple times throughout the year to review the operations, risks and challenges associated with the furtherance of FINRA's mission. These committees include the Audit Committee; Compensation and Human Capital Committee; Conflicts Committee; Executive Committee; Finance, Operations and Technology Committee (Finance Committee); Nominating and Governance Committee; Regulatory Oversight Committee; and Regulatory Policy Committee. FINRA's Investment Committee also met throughout the year.

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.

# Our People

## We are one FINRA—working closely together to protect investors.

Every day, more than 3,900 FINRA employees work together to help protect investors and ensure the fair and honest operation of the U.S. securities markets. Our employees are the foundation of our mission-driven culture. FINRA's values—collaboration, expertise, innovation and responsibility—reflect who we are as an organization and what we strive for: one team, acting with one vision to achieve our public-service mission. Our values underpin everything we do—how we build our culture, make decisions and operate to meet our mission.

We operate across the United States in 18 offices, which allows us to attract dedicated and talented people who are inspired by our mission. In 2022, we transitioned to a hybrid work environment, which allows for a combination of remote and in-office presence to maximize productivity, collaboration and engagement. In 2022, we hired more than 600 employees to backfill vacancies and to fill new roles needed to meet the increased scope and challenges of our regulatory activities and responsibilities. We enhanced our internship program—FINRA NEXT (Nurturing Exceptional Talent)—to focus on building a robust and diverse candidate pipeline. In 2022, 81 percent of our intern students accepted fulltime positions at FINRA post graduation.

As the industry evolves, so too does the talent we need to attract and retain to achieve our mission. To ensure we meet the needs of the evolving industry, we continue to leverage leading technologies such as big data, machine learning, artificial intelligence and data visualization, and build our employees' expertise in these areas. In 2022, we partnered with Georgetown University to develop an eight-week advanced analytics program for employees designed to teach critical advanced analytics terms, concepts and tools, and how to apply them in our work to protect investors and safeguard market integrity. Additionally, more than 2,900 employees and managers attended virtual and in-person development courses, including the Wharton Leadership Program for senior leaders at the University of Pennsylvania and a mid-level leaders program designed and built by and for FINRA leaders.

To address rising national turnover trends, we developed an employee retention toolkit, conducted focus groups with more than 60 returning employees and reviewed compensation for critical roles. To further address retention, we continue to reward employees for exceptional performance. This past year, we recognized 19 employees with our Award of Distinction for their extraordinary contributions to our mission of investor protection and market integrity. Our retention rate was 90 percent, which is comparable to our pre-pandemic levels. In addition, more than 17 percent of FINRA's employees were promoted to or selected for internal opportunities. In 2022, FINRA was recognized externally as an Employer of Choice by DiversityInc, Computerworld, the Human Rights Campaign, Disability Equality Index and VETS Indexes.

## We give back to communities across the country.

We believe it is our responsibility to be a good corporate citizen. To that end, we offer employees a robust Workplace Giving program, including an annual companywide volunteer service period known as the Month of Service. In 2022, FINRA employees volunteered more than 12,500 hours and donated over $465,000 to 555 organizations through our workplace programs. Moreover, the Foundation dedicated more than $4 million to research, outreach and partnerships aimed at protecting Americans from financial fraud and fostering sustainable, inclusive financial capability-building initiatives.

## We are committed to fostering an inclusive and diverse workplace that ensures equitable treatment for all.

FINRA fosters representation at all levels of the organization, from on-campus recruitment for new hires to the makeup of the Board. Guided by FINRA's Diversity Leadership Council—established in 2009 to develop and implement FINRA's diversity and inclusion strategy—FINRA has built a program that centers on diversity awareness training and education, formal mentoring programs and a network of Employee Resource Groups (ERGs).

FINRA formed the Racial Justice Task Force in 2020 to engage employees in FINRA's efforts to advance racial justice and foster inclusiveness within the organization, local communities and the securities industry in ways aligned with FINRA's mission. Through the task force's work, employees recommended and FINRA implemented 70 ideas or "seeds of change." Based on the employee recommendations, in 2022, FINRA established an Industry Diversity Advisory Committee dedicated to identifying effective diversity, equity and inclusion (DEI) practices at financial services organizations and providing guidance to FINRA and its members on enhancing DEI across the financial services industry.

# Diversity of Our Workforce

## EMPLOYEES

43% FEMALE

57% MALE

61% WHITE

39% MINORITY[1]

**NEW HIRES**

42% FEMALE

49% MINORITY

**OFFICERS**

41% FEMALE

14% MINORITY

**BOARD**

52% FEMALE

29% MINORITY

## REPRESENTATION

Our employees represent…

1% PROTECTED VETERANS[2,3]

13.2% DISABLED[3]

## GENERATIONS

… plus four distinct generations.

12% BABY BOOMERS (1946–1964)

45% GENERATION X (1965–1980)

40% GENERATION Y/MILLENNIALS (1981–1996)

3% GENERATION Z (1997 AND ONWARDS)

As of year-end 2022, almost 50 percent of employees were members of at least one of our ten ERGs, and ERG events had a combined attendance of over 12,000 participants at more than 100 events.

For more about FINRA's diversity and inclusion program, please see our 2022 Diversity, Equity & Inclusion Report.

1 **Minority** refers to the percentage of employees who selected a racial category other than "White (Not Hispanic or Latino)" in response to the EEO-1 Voluntary Self Identification Form to include American Indian or Alaska Native (Not Hispanic or Latino); Black or African American (Not Hispanic or Latino); Hispanic or Latino; Native Hawaiian or Other Pacific Islander (Not Hispanic or Latino); Two or More Races (Not Hispanic or Latino).

2 **Protected Veterans** refers to the percentage of employees who have voluntarily indicated that they identify as a veteran as defined by the Vietnam Era Veterans' Readjustment Assistance Act of 1974 (VEVRAA), as amended by the Jobs for Veterans Act of 2002.

3 **Source:** FINRA 2022 Employee Disability and Veteran Self-Identification Form.

## Financial Highlights

The financial information presented in this Management Report is prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP). As such, this Management Report should be read in connection with the consolidated financial statements and accompanying notes included elsewhere in this Annual Financial Report. The 2022 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, 2022 and 2021, FINRA's significant consolidated subsidiaries were FINRA Regulation, Inc., FINRA CAT, LLC (FINRA CAT) and the Foundation.

Our consolidated financial statements are also prepared in conformity with 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.

We describe our significant accounting policies in Note 2, "Summary of Significant Accounting Policies," Note 3, "Revenue from Contracts with Customers," Note 5, "Fair Value Measurement," and Note 7, "Employee Benefit Liabilities," to the consolidated financial statements.

## Summary of Operations

The following table provides a summary of our financial results for the two years ended December 31, 2022.

| | Years Ended December 31, | |
|---|---|---|
| | 2022 | 2021 |
| | *(in millions)* | |
| Operating revenues | $ 1,288.5 | $ 1,301.8 |
| Fines | 54.5 | 103.0 |
| Net revenues | 1,343.0 | 1,404.8 |
| Expenses | (1,437.5) | (1,313.1) |
| Interest and dividend income | 34.3 | 20.3 |
| Operating income | (60.2) | 112.0 |
| Net realized and unrealized investment gains | (166.9) | 105.3 |
| Other income | 9.0 | 1.5 |
| Net (loss) income | $ (218.1) | $ 218.8 |

We reported a net loss of $218.1 million in 2022 versus net income of $218.8 million in 2021, a decrease of $436.9 million year over year. Our 2022 net loss of $218.1 million was driven by an operating loss of $60.2 million and investment losses of $166.9 million, offset by other income of $9 million. A decrease in revenues coupled with increasing expenses, partially offset by an increase in interest and dividend income resulted in an operating loss in 2022.

A more detailed look at our operating results follows.

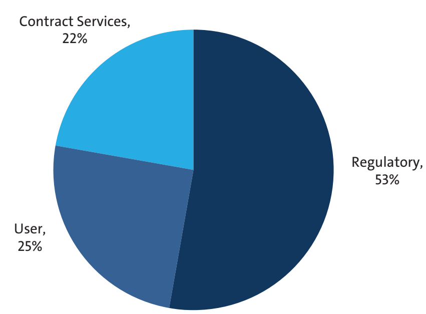
# Management Report on Operations (continued)

## OPERATING REVENUES

**Operating Revenues**
*(in millions)*

| Revenue category | 2022 | 2021 |
|---|---|---|
| Regulatory | $ 680.6 | $ 660.6 |
| User | 327.7 | 396.0 |
| Contract services | 280.2 | 245.2 |
| **Total** | **$1,288.5** | **$1,301.8** |

**Operating Revenues By Type – 2022**




## COMMENTARY: 2022 – 2021

Regulatory revenues, such as the Gross Income Assessment (GIA), Personnel Assessment (PA), Branch Office Assessment and Trading Activity Fees (TAF), consistently represent approximately half of FINRA's operating revenues on an annual basis. User revenues (transparency services, registrations, qualification examinations, dispute resolution, FINRA-sponsored educational programs and conferences, and reviews of advertisements, corporate filings and disclosures) consistently represent between one-quarter and one-third of FINRA's operating revenues on an annual basis. Contract services revenues, which predominantly arise from FINRA CAT's role as the Consolidated Audit Trail (CAT) Plan Processor and from performing regulatory services under contract for exchanges, have grown over the last three years, primarily driven by revenue from FINRA CAT's role as the CAT Plan Processor. In 2022, contract revenues represented close to one-quarter of FINRA's operating revenues on an annual basis.

FINRA's operating revenues for 2022 decreased $13.3 million or one percent, as the $68.3 million decrease in user revenues was partially offset by $35 million and $20 million increases in contract services and regulatory revenues, respectively. The details of the changes in each category are discussed below.

Regulatory revenues. The increase in regulatory revenues was primarily attributable to higher GIA, partially offset by lower TAF. An increase in industry revenues, coupled with the first year of a fee increase, drove the increase in GIA, while lower market volume partially offset by the first year of a fee increase led to lower TAF.

User revenues. A year-over-year decrease in the number of initial and secondary public offerings, partially offset by qualification exam and registration revenue increases, led to the decrease in user revenues. The 2022 increase in qualification exam fees, coupled with an increase in qualification exams administered, drove the increase in qualification exam revenue, while the 2022 registration fee increase drove the increase in registration revenue.

Contract services revenues. An increase in revenues related to FINRA CAT's role as the CAT Plan Processor drove the increase in contract services revenues.

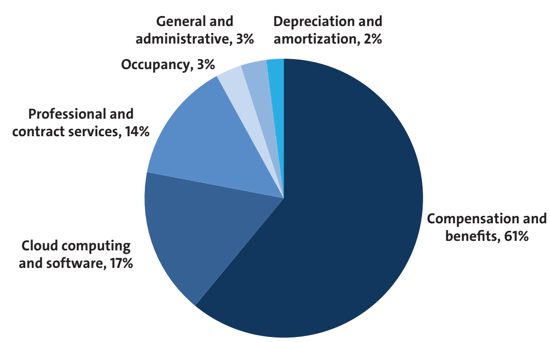
# Management Report on Operations (continued)

**EXPENSES**

**Operating Expenses**
*(in millions)*

| Expense category | 2022 | 2021 |
|---|---|---|
| Compensation and benefits | $ 870.0 | $ 802.5 |
| Cloud computing and software | 242.3 | 188.9 |
| Professional and contract services | 208.0 | 205.8 |
| Occupancy | 46.7 | 37.5 |
| General and administrative | 46.4 | 53.9 |
| Depreciation and amortization | 24.1 | 24.5 |
| **Total** | **$1,437.5** | **$1,313.1** |

**Expenses By Type – 2022**




**COMMENTARY: 2022 – 2021**

Our expenses are primarily driven by employee-related costs, as we seek to attract, develop and retain a diverse group of talented staff, particularly in highly specialized areas of regulation and technology, to enable FINRA to carry out its regulatory mandate in today's ever-changing markets. Employee compensation and benefits are FINRA's largest expense, representing approximately two-thirds of total expenses on an annual basis. Information regarding FINRA's compensation philosophy can be found in the accompanying Compensation and Human Capital Committee Report of this 2022 Annual Financial Report. FINRA had approximately 3,900 employees as of December 31, 2022, and approximately 3,700 employees as of December 31, 2021. Staff increases related to our regulatory operations and technology functions primarily drove the year-over-year increase in employees. These staff increases are driven by the increased scope of our regulatory activities and responsibilities.

Expenses for 2022 increased $124.4 million or 9.5 percent, primarily due to increases in compensation and benefits ($67.5 million) and cloud computing and software ($53.4 million). The year-over-year changes in professional and contract services, occupancy, general and administrative expenses, and depreciation and amortization were not considered material. The details of the material category changes are discussed below.

Compensation and benefits. Increases in annual merit and promotions ($25.9 million), the number of employees ($21.1 million) and incentive compensation ($9.6 million), along with higher self-funded employee insurance expenses ($10.9 million), offset by a decrease in expenses related to the deferred compensation plan for officers and the supplemental defined contribution plan for senior officers ($15.5 million), drove the rise in compensation and benefits expenses.

Cloud computing and software. Our expanded use of cloud computing services under our enterprise customer agreement with a third-party vendor, primarily related to FINRA CAT's role as the CAT Plan Processor, led to the increase in cloud computing and software expenses.

**INVESTMENT RETURNS**

Traditionally, FINRA has relied on its reserve portfolio to support its operating budget as needed in any given year and as a source for funding strategic initiatives. FINRA's reserve portfolio lost 6.4 percent in 2022 compared to a positive 6.5 percent return in 2021.

Additional information regarding the reserve portfolio, strategy and returns can be found in the accompanying Investment Committee Report of this 2022 Annual Financial Report. Descriptions of the nature of and accounting for FINRA's investments are described in Note 2, "Summary of Significant Accounting Policies," and Note 4, "Investments," to the consolidated financial statements.

**RESTITUTION AND FINES**

One of FINRA's tools for achieving investor protection and market integrity is vigorous, fair and effective enforcement of our member firms' compliance with securities laws and regulations.

When a member firm or registered representative engages in misconduct, restitution for harmed customers is our highest priority, although there are many cases in which it is not practical. FINRA may order restitution when an investor has suffered a quantifiable loss due to misconduct. The calculation of restitution is based on the actual amount of the harm investors sustain as demonstrated by evidence. We ordered $26.2 million in restitution to harmed investors during 2022. We assess restitution separately from fines and it has no impact on how or when we use fine money. Restitution is payable to the harmed party and has no effect on our financial position.

When a member firm or registered representative engages in misconduct, we also assess whether a sanction (*e.g.*, a fine or a suspension) should be imposed to discourage similar conduct by the firm, registered representative or others. When we impose fines, the amounts are based on the facts and circumstances of the misconduct and the principles set forth in FINRA's *Sanction Guidelines*. The National Adjudicatory Council (NAC), which is composed of industry and non-industry members, continues to maintain FINRA's *Sanction Guidelines* for use by the various bodies adjudicating FINRA disciplinary decisions, including Hearing Panels and the NAC itself, in determining appropriate remedial sanctions. FINRA publishes the *Sanction Guidelines* so that member firms, associated persons and their counsel may become more familiar with the types of disciplinary sanctions that may be applicable to various violations.

Effective September 29, 2022, the NAC revised FINRA's *Sanction Guidelines*. These revisions were based on a review to ensure that the guidelines accurately reflect the levels of sanctions imposed in FINRA disciplinary proceedings. The revisions tailored sanctions to differentiate between types of respondents and modified the *Sanction Guidelines* in the following ways:

- split each current guideline into separate guidelines for individuals and firms;
- created separate fine ranges for small and mid-size or large-size firms;
- removed the upper limit of the fine ranges for mid-size and large-size firms for select guidelines;
- created Anti-Money Laundering guidelines;
- added additional discussion of non-monetary sanctions for firms;
- introduced single fine ranges for all actions in the Quality of Markets guidelines and other select guidelines;
- established $5,000 as the minimum low end for all firm fine ranges; and
- deleted 20 infrequently used prior guidelines. The substance of some prior guidelines was incorporated into other guidelines.

Fines are not based on FINRA revenue considerations, and we do not establish any minimum amount of fines that must be assessed for purposes of our annual budget. These monies are not considered in determining employee compensation and benefits.

The total amount of fines in 2022 was $54.5 million, a decrease of $48.5 million over the prior year. One fine accounted for over half of total fines in 2021.

# Management Report on Operations (continued)

FINRA's use of fine monies is governed by FINRA's *Financial Guiding Principles* (Principles), which we first published in January 2018 to provide more transparency about how we manage our financial resources to ensure we fulfill our regulatory responsibilities and further our mission. FINRA's Board reviews the Principles on a periodic basis. As the Principles describe, FINRA accounts for fine monies separately, and any use of such monies is approved, separately from other expenditures, by the Board or its Finance Committee. The Board or its Finance Committee may authorize the use of fine monies only for one of four enumerated purposes: (1) capital/initiatives or non-recurring strategic expenditures that promote more effective and efficient regulatory oversight by FINRA (including leveraging technology and data in a secure manner) or that enable improved compliance by member firms; (2) activities to educate investors, promote compliance by member firms through education, compliance resources or similar projects, or ensure our employees are highly trained in the markets, products and businesses we regulate; (3) capital initiatives required by new legal, regulatory or audit requirements; or (4) replenishing reserves in years where such reserves drop below levels reasonably appropriate to preserve FINRA's long-term ability to fund its regulatory obligations.

In accordance with the Principles, in May 2023, FINRA issued a separate detailed report covering all uses of fine monies in 2022.

**BALANCE SHEET**

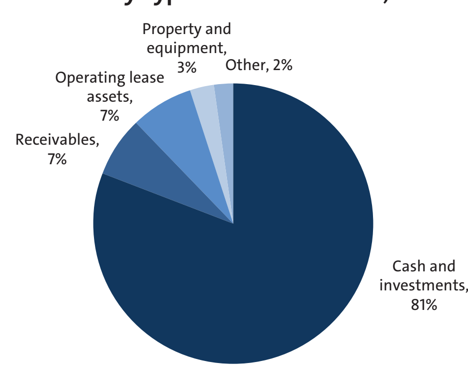
Our focus is to ensure a balance sheet that positions FINRA to fulfill our regulatory obligations and mission in today's continually evolving markets. To that end, our balance sheet remains strong, with net assets of approximately $1.6 billion as of December 31, 2022, and $1.7 billion as of December 31, 2021. FINRA's working capital (excluding fines and our consolidated limited partnership, as described in Note 4, "Investments") was $1.2 billion as of December 31, 2022, and $1.4 billion as of December 31, 2021. Our working capital and cash ratios (excluding fines and our consolidated limited partnership) were 2.35 and 2.10 as of December 31, 2022, compared to 3.74 and 3.45 as of December 31, 2021. The decreases in FINRA's working capital, along with its working capital and cash ratios, were driven by operating and investments losses for the year.

**Assets**

**Assets**
*(in millions)*

| **Asset category** | **2022** | **2021** |
|---|---|---|
| Cash and investments | $2,319.4 | $2,298.3 |
| Receivables | 198.0 | 108.7 |
| Operating lease assets | 184.6 | — |
| Property and equipment | 95.2 | 97.2 |
| Other | 53.4 | 44.4 |
| **Total** | **$2,850.6** | **$2,548.6** |

**Assets By Type as of December 31, 2022**



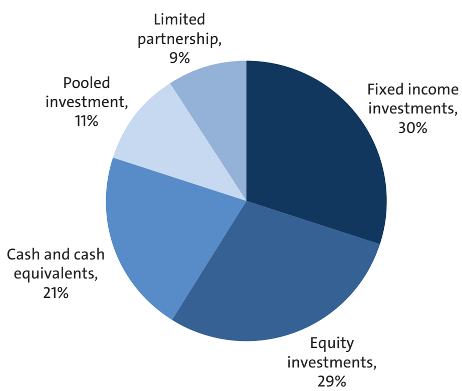
## Assets (continued)

**COMMENTARY: 2022 – 2021**

Cash and investments (cash, cash equivalents and fixed income, equity and other investments, including investments receivable) are the largest portion of FINRA's total assets, consistently representing over 80 percent of total assets annually. Our primary market risk relates to the reserve portfolio. The value of our investments is impacted by fluctuations in the market as well as changes in individual security prices.

Cash and investments as of December 31, 2022, are presented in the following chart.

**Cash and Investments By Type as of December 31, 2022**




Descriptions of the nature of and accounting for FINRA's investments are included in Note 2, "Summary of Significant Accounting Policies," and Note 4, "Investments," to the consolidated financial statements.

Total assets increased $302 million or 11.8 percent, due primarily to increases in operating lease assets ($184.6 million), receivables ($89.3 million), and cash and investments ($21.1 million). The year-over-year changes in property and equipment and other assets were not considered material. The details of the material category changes are discussed below.

Cash and investments. Cash and investments increased due to the approximately 349 percent increase in SEC fee rates offset by reserve portfolio losses of 6.4 percent. Effective May 14, 2022, the activity assessment fee rate increased from $5.1 to $22.9 per million dollars in transactions.

Receivables. Receivables increased primarily due to the increase in SEC fee rates mentioned above. FINRA assesses regulatory transaction fees in accordance with prescribed SEC fee rates; therefore, our cash, activity assessment fee receivable and activity assessment fee payable balances fluctuate year over year as a result of changes in activity volumes and SEC fee rates.

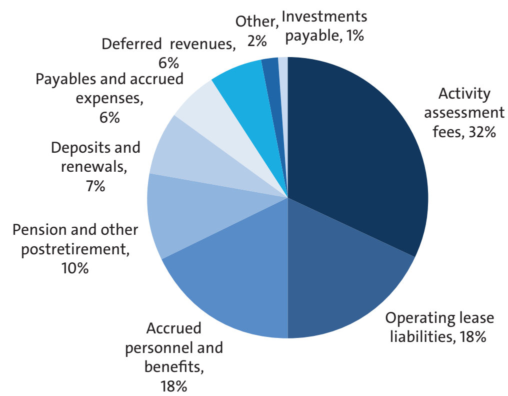
Operating lease assets. The increase in operating lease assets is due to our adoption of Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)* (ASC 842), effective January 1, 2022. ASC 842 required lessees to put most leases on their balance sheets. As such, we have established right-of-use assets as required under ASC 842.

# Management Report on Operations (continued)

## Liabilities

| Liabilities (in millions) | | |
|---|---|---|
| **Liability category** | **2022** | **2021** |
| Activity assessment fees | $ 388.7 | $ 95.1 |
| Operating lease liabilities | 225.9 | — |
| Accrued personnel and benefits | 220.9 | 220.6 |
| Pension and other postretirement | 124.2 | 176.9 |
| Deposits and renewals | 82.1 | 74.0 |
| Payables and accrued expenses | 77.8 | 48.6 |
| Deferred revenues | 67.2 | 67.1 |
| Other | 21.3 | 117.2 |
| Investments payable | 15.1 | 0.4 |
| **Total** | **$1,223.2** | **$799.9** |

**Liabilities By Type as of December 31, 2022**




### COMMENTARY: 2022 – 2021

Total liabilities increased $423.3 million or 52.9 percent, due primarily to increases in activity assessment fees ($293.6 million), operating lease liabilities ($225.9 million), accounts payable and accrued expenses ($29.2 million), and investments payable ($14.7 million), offset by decreases in other liabilities ($95.9 million), and pension and other postretirement ($52.7 million). The year-over-year changes in accrued personnel and benefits cost, deposits and renewals and deferred revenues were not considered material. The details of the material category changes are discussed below.

Activity assessment fees. The previously mentioned assessment fee rate increase during 2022 was the primary driver of the increase in our activity assessment fees payable. We remit these activity assessment fees to the U.S. Department of Treasury semiannually, in March and September.

Operating lease liabilities. The increase in operating lease liabilities is due to our adoption of ASC 842 effective January 1, 2022. ASC 842 required lessees to put most leases on their balance sheets. As such, we have established liabilities as required under ASC 842.

Pension and other postretirement. The decrease in pension and other postretirement liabilities was primarily driven by changes in actuarial assumptions and plan contributions, partially offset by asset performance and normal costs related to FINRA's pension plan. The pension plan discount rate increased from 2.83 percent at December 31, 2021, to 5.03 percent at December 31, 2022. Additionally, the postretirement plan discount rate increased from 2.71 percent at December 31, 2021, to 5.01 percent at December 31, 2022.

Pension and other postretirement benefit costs represent a significant liability to FINRA. The actuarial assumptions that we use in determining pension and other postretirement costs may also materially affect the calculation of the liability. However, we believe that the assumptions used are appropriate. 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."

Accounts payable and accrued expenses. Our expanded use of cloud computing services under our enterprise customer agreement with a third-party vendor, combined with an increase in refunds of member firm overpayments, drove the increase in accounts payable and accrued expenses.

Other liabilities. The effects of our adoption of ASC 842 are the primary drivers of the decrease in other liabilities. First, we recognized the previously deferred gain on the sale and subsequent leaseback of our Rockville, Maryland, and Washington, D.C., properties. Second, we transferred the previously recorded liability for our deferred rents and tenant improvements as an offset to the amount of our right-of-use lease assets.

Investments payable. Investments payable relate to security trades and other investment 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.

# Management Report on Operations (continued)

**LIQUIDITY AND CAPITAL RESOURCES**

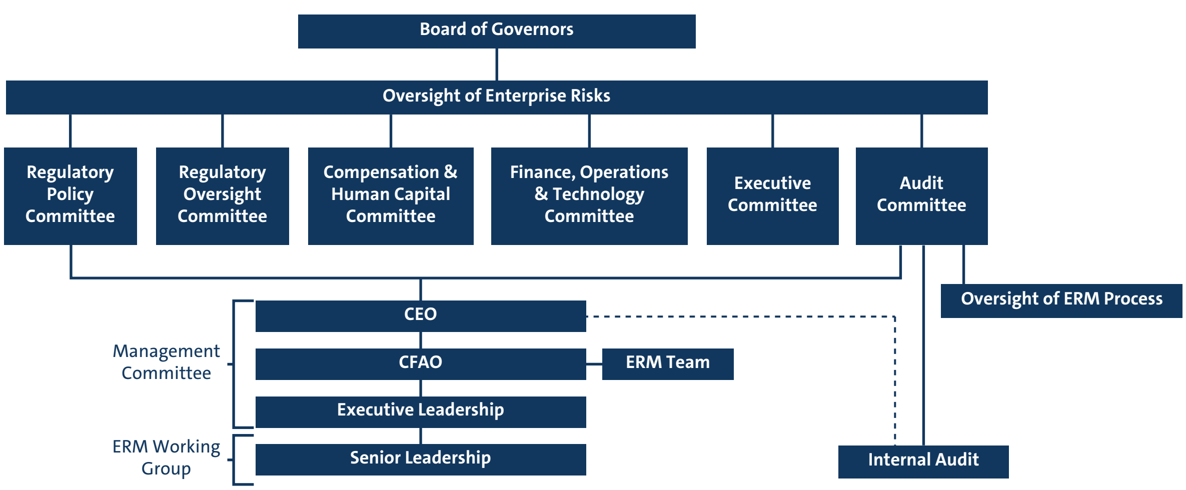
Liquidity is the efficiency or ease with which an asset or security can be converted into ready cash without affecting its market price. Liquidity management involves forecasting funding requirements and maintaining sufficient working capital to meet business needs and accommodate fluctuations in asset 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.

We maintain a seasonal unsecured line of credit agreement with the option to borrow up to $100 million at the Secured Overnight Financing Rate plus 0.71448 percent (5.01448 percent at December 31, 2022). This line of credit was available to us from March 1, 2022, to May 31, 2022, and renewed from March 1, 2023, to May 31, 2023. The line of credit provides us with a mechanism to fund operations prior to the annual billing of the GIA and PA in April, and the subsequent receipt of those funds, without having to incur the costs associated with short-term redemptions from the reserve portfolio during this period. As of December 31, 2022, and December 31, 2021, no amounts were outstanding under this line of credit.

The reserve 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 reserve portfolio. As of December 31, 2022, 75 percent of our investments are available on a daily basis. Additional information regarding the reserve portfolio can be found in the accompanying Investment Committee Report of this 2022 Annual Financial Report.

**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 achieving its mission, strategic goals and key business objectives. The program covers a broad spectrum of risks in various risk categories, such as strategic, operational, legal and 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 risks.




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.

**ENTERPRISE RISK MANAGEMENT (continued)**

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, composed of the Chief Executive Officer (CEO), Chief Financial and Administrative Officer (CFAO) and other senior executives across FINRA. Additionally, an ERM Working Group brings together senior managers across the organization to provide fresh perspectives and support. FINRA's Internal Audit Department serves the ERM program in an advisory capacity.

**CYBER AND INFORMATION SECURITY**

FINRA operates a comprehensive security program designed to mitigate cyber and physical information security threats and ensure compliance with applicable data privacy laws and regulations. Our program is based upon industry best practices, and guided by federal and international standards, and data privacy laws and regulations. Cybersecurity, information security breach and data privacy risks are integrated into FINRA's ERM program.

FINRA's information security practices and operational controls include leading practices such as real-time monitoring and alerting of security events, encryption of data in-transit and at-rest, vendor security assessments and monitoring, asset hardening and patching, fine-grained access controls, network and host intrusion protection, and denial of service attack mitigation. We also leverage the Cyber Kill Chain® to continuously evaluate the threats facing FINRA, the impact of those threats, and the controls needed to mitigate the probability and impact of the threats.

FINRA's adoption of cloud technology provides numerous benefits, such as access to best-of-breed security solutions made available by the cloud provider's scale of operations. Another benefit is our ability to use micro-segmentation, or putting each server into a security zone of one, which dramatically reduces attack surface area. Cloud technology also enables us to focus on the automation and tools necessary to raise the compliance bar and simplify controls.

FINRA information technology systems are subject to numerous mandatory and voluntary inspections including, but not limited to, the following:

- frequent vulnerability scans covering all facets of our information technology infrastructure, including network devices, servers, storage subsystems, operating systems and server software (such as web servers and databases);
- application code analysis and security testing using automated scans, dynamic testing and manual attack techniques to identify application-level vulnerabilities;
- periodic independent third-party perimeter, telecom and application penetration tests, application security assessments, and a bug bounty program;
- recurring reviews of cybersecurity dashboards and vulnerabilities at each Audit Committee meeting;
- an internal controls program with regular effectiveness evaluations to ensure accuracy and integrity of financial reporting;
- regular inspections conducted by the SEC;
- an annual Service Organization Control (SOC) 2 Type II certification;
- periodic independent third-party cyber program and governance assessments; and
- cyclical audits by our Internal Audit department.

# Investment Committee Report
Year Ended December 31, 2022

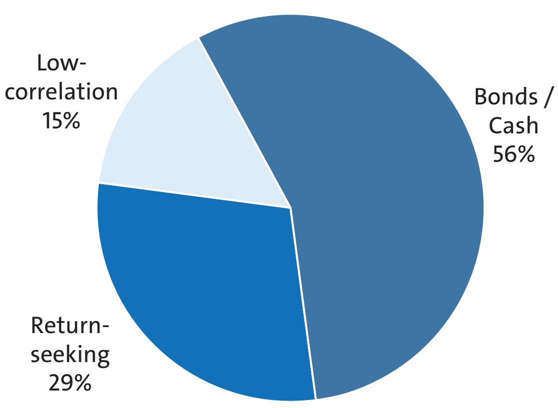
FINRA's reserve portfolio* is a pool composed of both long-term investments and short-term operating cash assets principally created with proceeds from the sale of FINRA's interests in NASDAQ which started in 2000 and was completed in 2006. The purpose of the reserve portfolio is to support FINRA's efforts to fulfill its mission by serving as a source of funding for strategic and unanticipated initiatives and by making annual operating budget contributions as needed. Distributions from the reserve portfolio are subject to prior approval by the Board of Governors (Board) and may be used to defer member fee increases or make up cash flow losses, among other uses.

The Board is responsible for FINRA's reserve portfolio and approves the charter that guides the FINRA Investment Committee. The Investment Committee, a standing committee of FINRA, is composed of members of the Board and other outside investment professionals that advise the Board and provide 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.

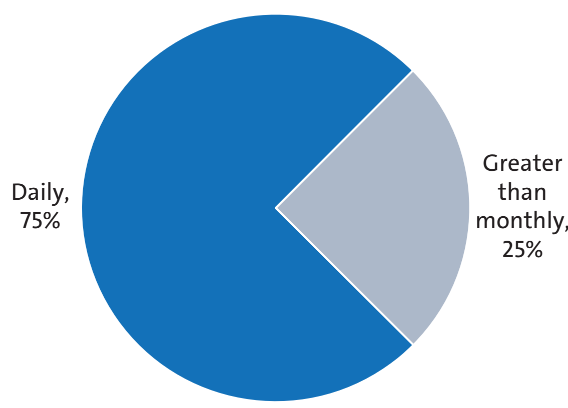
FINRA invests its reserve portfolio with the objective of creating a conservative, low-volatility portfolio designed to deliver low-to-moderate returns over the medium-term in order to help ensure we fulfill our regulatory responsibilities and further our mission. FINRA's Board-approved investment policy consists of a core portfolio of bonds and stocks with an additional allocation to strategies designed to further reduce risk and lower the correlation to capital markets. The policy maintains ample portfolio liquidity while remaining consistent with FINRA's long-term risk and return objectives, as determined by the Board. In 2022, the reserve portfolio lost 6.4 percent amid a highly turbulent year in which generic stock and bond markets experienced double-digit losses of 18.1 percent for the S&P 500 and 13 percent for the Bloomberg US Aggregate Bond Index.

The charts below show portfolio exposures and general liquidity as of December 31, 2022. Primary exposures are 56 percent bonds/cash, 29 percent return-seeking investments, and 15 percent low-correlated assets.

**Exposures as of December 31, 2022**




**Liquidity as of December 31, 2022**




* For the purposes of this Investment Committee report, FINRA's reserve portfolio includes the FINRA Investor Education Foundation's investments and investments net of their related receivables and payables on the consolidated balance sheet. The values reported exclude Section 31 fees received but not yet remitted to the U.S. Department of Treasury, FINRA member firm deposits and GASB fees remitted to the Financial Accounting Foundation.

# Investment Committee Report (continued)

FINRA has established a series of Financial Guiding Principles that include a goal of maintaining a reserve balance equal to at least one year of expenditures. In 2021, FINRA received approval from the U.S. Securities and Exchange Commission (SEC) to gradually introduce an increase in fees over a multi-year period, beginning in 2022 and ending in 2024. To accommodate this phased-in approach to the increase in fees, FINRA expects to draw a significant portion from the reserve portfolio in order to support FINRA's operations while gradually implementing the fee increase to member firms over multiple years. Due to operating expenses exceeding revenues in 2022 and higher initiative spending, FINRA redeemed $19 million from the reserve portfolio and reduced cash levels by $54 million. Medium-term projections suggest that expenditures will outpace revenues in the coming years, despite the planned fee increase, and the reserve portfolio will continue to be drawn down to support operating and capital needs. The chart below highlights portfolio asset flows in 2022.

**RESERVE PORTFOLIO FLOWS (in millions)[1]:**

| | |
|---|---|
| Beginning assets | $ 2,045 |
| Net portfolio flows | (19) |
| Gains (losses) | (129) |
| Change in cash | (54) |
| Ending assets | $ 1,843 |

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. FINRA's investment strategy limits the direct ownership of investment assets to debt securities, equity securities, mutual and commingled funds, treasury futures, limited partnership interests and shares in private investment funds. FINRA selects third-party investment managers who make all implementation decisions with respect to the reserve portfolio. When FINRA utilizes separately managed accounts, because direct ownership of individual securities exists, all securities in the banking and brokerage sectors are held in a blind trust. This prevents 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 limited partnership interests and investments in public and private funds represent ownership interests in pooled vehicles in which FINRA has neither management discretion nor direct ownership of the underlying investments.

The oversight and management of the reserve portfolio is performed by the Investment Committee and limited to essential staff only, so that no individual in the regulatory arm of the organization has access to information regarding the securities within our reserve portfolio.

Members of the Investment Committee:

Jack B. Ehnes, Chair
Camille M. Busette
George (Gus) Sauter
Timothy C. Scheve
John W. Thiel
Jennifer A. Urdan

June 28, 2023

[1] Net portfolio flows include investment portfolio purchases and withdrawals exclusive of cash investments. Investment gains and losses include both realized and unrealized capital gains, along with interest and dividends earned from portfolio and operating cash investments. Change in cash includes changes in the operating cash balance due to revenue and expense flow activity.

# Audit Committee Report

Year Ended December 31, 2022

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 U.S. 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 Jack B. Ehnes is an audit committee financial expert, as defined by the SEC.

During 2022, the Audit Committee met six times.

The Charter and the By-Laws of FINRA make the Chief Audit Executive directly responsible to the Audit Committee. In all material respects, the Charter complies with standards applicable to publicly owned companies. (The Charter for the FINRA Audit Committee is available at: https://www.finra.org/about/governance/standing-committees/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, auditor independence, Public Company Accounting Oversight Board (PCAOB) inspection 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 posed by the Audit Committee.

The lead audit partner, having primary responsibility for the audit, rotates off 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 2021.

Ernst & Young LLP (EY) has served as FINRA's auditor since 1986.

# 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:

| | 2022 | 2021 (1) |
|---|---|---|
| Audit services (2) | $1,205,000 | $1,104,445 |
| Audit-related services (3) | 521,250 | 490,905 |
| Tax services (4) | 161,600 | 54,517 |
| All other services (5) | — | 375,000 |
| Total | $1,887,850 | $2,024,867 |

(1) FINRA has updated the 2021 fees from the prior year's report to reflect final amounts paid for the 2021 approved services.

(2) For 2022 and 2021, audit services represent the consolidated financial statement audit.

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

(4) Tax services represent fees related to tax return preparation and review services in connection with the 2022 and 2021 Form 990s and related Form 990-Ts, as well as other tax compliance, advice and planning.

(5) All other services represent advisory services to assess contract compliance related to a FINRA subsidiary.

The Audit Committee discussed and reviewed with the independent auditor all communications required by applicable professional standards. 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, 2022, and EY's report on the consolidated financial statements. Based on those discussions, the Audit Committee recommended to the Board that FINRA's audited consolidated financial statements be included in the annual report for the year ended December 31, 2022.

Members of the Audit Committee:

Lance F. Drummond, Chair
Jack B. Ehnes
Maureen Jensen
Linde Murphy
Penny Pennington

June 28, 2023

# Compensation and Human Capital Committee Report

Year Ended December 31, 2022

*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. FINRA is committed to attracting and retaining talent through offerings of programs and services in addition to compensation. FINRA focuses on employee well-being and provides an inclusive workplace that encourages career enhancement and personal growth.

*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 benchmarks that are used to help establish these structures. To determine whether compensation is comparable to the value that those skills would command on the open market, FINRA uses specific position survey data to compare skill sets and benchmark the compensation paid to FINRA staff. Ultimately, in assessing how to value 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.

As part of its compensation philosophy, FINRA has determined that its competitive compensation positioning for all employees should be considered primarily against a broad section of financial services companies, as this is the most likely sector from which FINRA will recruit talent, and that would recruit talent away from FINRA. FINRA also benchmarks against general industry and legal industry positions for jobs that are not unique to the financial services industry. The Compensation and Human Capital Committee (the Committee) considers a range of market data, by position, when considering pay decisions for certain key executives and generally targets a minimum of the $50^{th}$ percentile of market total cash compensation. 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 may reflect or offset the lack of long-term incentives at FINRA.

In determining a benchmarking strategy for key executives, the Committee and its advisor (see next section) 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 composed of a blend of public financial services organizations engaged in brokerage or other related financial activities.
- public exchanges and regulators.
- financial services industry survey data.
- legal industry survey data.
- other not-for-profit sector data.

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

# Compensation and Human Capital Committee Report (continued)

*Executive Compensation*

The Committee, which is composed solely of public members of the Board of Governors (Board), is responsible for reviewing and recommending to the Board for approval, employment agreements (including base salary, incentive compensation and benefits) for the Chief Executive Officer (CEO). The Committee reviews and approves the base salaries and incentive compensation recommended by the CEO for his or her Executive Vice President level direct reports. In determining salary and incentive compensation, management and the Committee consider operational, strategic and financial factors in addition to individual performance. Compensation determinations have no direct relationship to fines or changes in membership fees. The Committee met four times during 2022.

The Committee has the sole right and responsibility to hire and terminate a compensation consultant. The Committee engaged Meridian Compensation Partners, LLC (Meridian), an independent third-party compensation consultant, to prepare a compensation study, which included objective analysis of current compensation levels and benchmarking using information from comparable segments of the market for key executives. To ensure the independence of Meridian:

- Meridian reported directly and exclusively to the Committee;
- no Meridian employee is or was hired by FINRA;
- Meridian provided no significant services, other than compensation consulting services, to FINRA;
- any interaction between Meridian and FINRA executive management is limited to discussions on matters under the purview of the Committee and information that is presented to the Committee for approval; and
- fees paid to Meridian for compensation consulting services are reasonable and in line with industry standards.

# Compensation and Human Capital Committee Report (continued)

*Summary Compensation Table*

Salary information represents the base annual salary at which the named executives are compensated, as of June 30 of each year. It does not represent year-to-date earnings. The incentive compensation amounts represent the actual payment in March of each year based on prior year performance. Other amounts, including deferred compensation and other benefits, are not presented for 2023, as these accumulate over the course of the year and final amounts are not determined until year-end. The top five executives are determined based on total 2023 salary and incentive compensation as described above.

Descriptions for the components of compensation listed below are listed on the following page. Compensation information for additional executives is reported in Form 990 *Return of Organization Exempt from Income Tax*. Compensation totals below align with Form 990 reporting requirements with the exception of voluntary early recognition of retention agreement effects as described on the next page.

| Name and principal position | | Salary | Incentive compensation | Other compensation and deferrals | Other benefits | Total |
|---|---|---|---|---|---|---|
| Robert W. Cook | 2023 | 1,100,000 | 2,150,000 | * | * | 3,250,000 |
| President and Chief Executive Officer | 2022 | 1,000,000 | 2,150,000 | 510,960 | 15,718 | 3,676,678 |
| | 2021 | 1,000,000 | 1,750,000 | 525,220 | 20,975 | 3,296,195 |
| Todd T. Diganci | 2023 | 685,000 | 830,000 | * | * | 1,515,000 |
| EVP, Chief Financial and | 2022 | 650,000 | 820,000 | 304,150 | 12,873 | 1,787,023 |
| Administrative Officer | 2021 | 610,000 | 750,000 | 121,955 | 25,324 | 1,507,279 |
| Steven J. Randich | 2023 | 635,000 | 800,000 | * | * | 1,435,000 |
| EVP and Chief Information Officer | 2022 | 600,000 | 800,000 | 283,978 | 31,236 | 1,715,214 |
| | 2021 | 510,000 | 700,000 | 368,027 | 30,444 | 1,608,471 |
| Robert L.D. Colby | 2023 | 570,000 | 655,000 | * | * | 1,225,000 |
| EVP and Chief Legal Officer | 2022 | 540,000 | 645,000 | 162,308 | 47,849 | 1,395,157 |
| | 2021 | 510,000 | 585,000 | 148,639 | 49,063 | 1,292,702 |
| Greg Ruppert | 2023 | 525,000 | 580,000 | * | * | 1,105,000 |
| EVP, Member Supervision | 2022 | 500,000 | 565,000 | 139,410 | 40,955 | 1,245,365 |
| | 2021 | 400,000 | 400,000 | 129,277 | 31,029 | 960,306 |

* 2023 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.

# Compensation and Human Capital Committee Report (continued)

*Components of Compensation*

Salary

- Base salaries for all employees align with job-grade structures to provide for appropriate flexibility in hiring and retention. Actual salaries are based on job content, performance and relevant experience levels, and may fall above or below competitive levels.

Incentive Compensation

- Incentive compensation is available to all employees and 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 March of the following year.

Other Compensation and Deferrals

- Pension and 401(k) deferral and matching programs are generally available to all employees. The pension plan may be either defined contribution or defined benefit depending on employee hire date and years of service.
- Certain employees at both the officer and non-officer level may receive a special deferred compensation retention plan. Amounts are reported in the year earned, which may be different from the year in which they are paid, especially in multi-year retention plans. Form 990 reporting requirements may stipulate delayed reporting of certain retention agreements, depending on their conditions. However, we may opt to recognize the effect in the current year for clarity and comparative purposes. Therefore, to the extent that the reporting above differs from Form 990 compensation totals, this is caused by these timing differences.
- Supplemental retirement benefits are provided for top executives. These plans, which may be either defined benefit or defined contribution, are non-qualified and are based on salary, officer level, and, depending on officer level, a portion of incentive compensation. Annual non-vested contributions and current net vesting contributions for defined contribution plans are reported as part of other compensation and deferrals.
- The defined benefit plans noted above, both pension and supplemental, experience fluctuations due to changes in discount rates and other actuarial factors. These fluctuations may result in significant valuation changes, both positive and negative, that affect the reported compensation in any given year. The effects of these fluctuations are generally reported as deferred compensation and are combined with other types of deferrals, including the retention agreements noted above, in the preceding table.

Other Benefits

- Other benefits include taxable and non-taxable health and welfare benefits such as employer-paid health, life and disability insurance that are generally available to all employees. On occasion, it may also include miscellaneous taxable fringe benefits such as parking, travel subsidies and similar minor items.

Members of the Compensation and Human Capital Committee:

Eric Noll, Chair
Fabiola Arredondo
Lance F. Drummond
Jack B. Ehnes
Moira A. Kilcoyne

June 28, 2023

# 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 and Administrative Officer, FINRA's management assessed the effectiveness of FINRA's internal control over financial reporting as of December 31, 2022. This evaluation included, among other things, reviews of the documentation of controls, evaluations of the design effectiveness of controls and reviews of evidence supporting the operating effectiveness of controls. Based on this assessment, we conclude that FINRA maintained effective internal control over financial reporting as of December 31, 2022.

June 28, 2023

Robert W. Cook
President and Chief Executive Officer

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

# Report of Independent Registered Public Accounting Firm

To the Board of Governors of
Financial Industry Regulatory Authority, Inc.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of the Financial Industry Regulatory Authority, Inc. (FINRA or the Company) as of December 31, 2022 and 2021, the related consolidated statements of operations, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of FINRA at December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

**Basis for Opinion**

These financial statements are the responsibility of FINRA's management. Our responsibility is to express an opinion on FINRA's financial statements based on our audits. We are required to be independent with respect to FINRA in accordance with the relevant ethical requirements relating to our audits.

We conducted our audits in accordance with the auditing 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 the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

**Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

***Pension and Other Postretirement Benefit Obligations***

***Description of the Matter***

At December 31, 2022, the Company's defined benefit pension obligation and other postretirement benefit obligation balances were $54.5 million and $73.5 million, respectively. As discussed in Note 7 to the consolidated financial statements, the Company makes significant subjective judgments about a number of actuarial assumptions for these obligations, which includes the discount rate, the rate of compensation increase and the expected return on plan assets. The Company updates the actuarial estimates used to measure these obligations to reflect updated participant data, actuarial assumptions and actual return on plan assets, among others.

# Report of Independent Registered Public Accounting Firm (continued)

Auditing management's estimate of the defined benefit pension obligation and the other postretirement benefit obligation involved a greater extent of audit effort, including involving firm specialists to assess the actuarial assumptions used in the measurement of the obligations.

***How We Addressed the Matter in Our Audit***

We obtained an understanding of the processes relating to the measurement and valuation of the defined benefit pension and other postretirement benefit obligations, and the related internal controls. This included, among others, controls over the review and approval processes that management has in place for the methods and assumptions used in estimating the obligations.

To test these obligations, we performed audit procedures that included, among others, evaluating the results of the actuarial valuation reports prepared by management's third party actuarial specialists and reconciling the results of the actuarial valuation reports to the Company's recorded obligations. We tested the completeness and accuracy of the underlying participant data used by management's third party actuarial specialists through testing of the reconciliation of the participant data recorded in the Company's source systems to the actuarial valuation report and comparing a sample of participant data to source documentation. With the assistance of our actuarial specialists, we assessed the methodology used by management with the methodology used in prior periods and those used in the industry. To evaluate the key assumptions noted above used in the actuarial valuation reports, we compared them to independently developed expectations using publicly available data.

Ernst + Young LLP

We have served as FINRA's auditor since 1986.

New York, New York
June 28, 2023

# FINRA Consolidated Balance Sheets

*(In millions)*

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 484.0 | $ 322.3 |
| Investments: | | |
| Fixed income, at fair value | 695.2 | 726.4 |
| Equity, at fair value | 676.5 | 760.8 |
| Receivables, net | 198.0 | 108.7 |
| Investments receivable | 1.0 | 23.4 |
| Other current assets | 30.9 | 23.4 |
| Total current assets | 2,085.6 | 1,965.0 |
| Property and equipment: | | |
| Data-processing equipment and software | 142.0 | 139.8 |
| Furniture, equipment and leasehold improvements | 69.8 | 96.8 |
| | 211.8 | 236.6 |
| Less accumulated depreciation and amortization | (116.6) | (139.4) |
| Total property and equipment, net | 95.2 | 97.2 |
| Other investments: | | |
| Pooled investment fund, at fair value | 252.5 | 206.9 |
| Investments of Consolidated Entity, at fair value | 209.9 | 258.2 |
| All other | 0.3 | 0.3 |
| Operating lease assets | 184.6 | — |
| Other assets | 22.5 | 21.0 |
| **Total assets** | $2,850.6 | $2,548.6 |

*See accompanying notes.*

# FINRA Consolidated Balance Sheets (continued)

*(In millions)*

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| **Liabilities and equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 77.8 | $ 48.6 |
| Accrued personnel and benefit costs | 220.9 | 220.6 |
| Deferred revenue | 67.2 | 67.1 |
| Deposits and renewals | 82.1 | 74.0 |
| Investments payable | 15.1 | 0.4 |
| Operating lease liabilities | 28.0 | — |
| Other current liabilities | 3.4 | 13.8 |
| Activity assessment fee payable | 388.7 | 95.1 |
| Total current liabilities | 883.2 | 519.6 |
| Operating lease liabilities | 197.9 | — |
| Accrued pension and other postretirement benefit costs | 124.2 | 176.9 |
| Other liabilities | 17.9 | 103.4 |
| **Total liabilities** | 1,223.2 | 799.9 |
| Equity | 1,659.2 | 1,819.4 |
| Accumulated other comprehensive loss: | | |
| Net unrecognized employee benefit plan amounts | (31.8) | (70.7) |
| **Total equity** | 1,627.4 | 1,748.7 |
| **Total liabilities and equity** | $2,850.6 | $2,548.6 |

*See accompanying notes.*

# FINRA Consolidated Statements of Operations

*(In millions)*

| | Years Ended December 31, | |
|---|---|---|
| | 2022 | 2021 |
| **Revenues** | | |
| Operating revenues: | | |
| Regulatory revenues | $ 680.6 | $ 660.6 |
| User revenues | 327.7 | 396.0 |
| Contract services revenues | 280.2 | 245.2 |
| Total operating revenues | 1,288.5 | 1,301.8 |
| Fines | 54.5 | 103.0 |
| Activity assessment revenues | 866.6 | 427.5 |
| Total revenues | 2,209.6 | 1,832.3 |
| Activity assessment cost of revenues | (866.6) | (427.5) |
| **Net revenues** | 1,343.0 | 1,404.8 |
| **Expenses** | | |
| Compensation and benefits | 870.0 | 802.5 |
| Cloud computing and software | 242.3 | 188.9 |
| Professional and contract services | 208.0 | 205.8 |
| Occupancy | 46.7 | 37.5 |
| General and administrative | 46.4 | 53.9 |
| Depreciation and amortization | 24.1 | 24.5 |
| **Total expenses** | 1,437.5 | 1,313.1 |
| Interest and dividend income | 34.3 | 20.3 |
| **Operating (loss) income** | (60.2) | 112.0 |
| **Other income (expense)** | | |
| Net realized and unrealized investment (losses) gains | (166.9) | 105.3 |
| Other income | 9.0 | 1.5 |
| **Net (loss) income** | $ (218.1) | $ 218.8 |

*See accompanying notes.*

# FINRA Consolidated Statements of Comprehensive (Loss) Income

*(In millions)*

| | Years Ended December 31, | |
|---|---|---|
| | 2022 | 2021 |
| **Net (loss) income** | $(218.1) | $218.8 |
| Employee benefit plan adjustments | 38.9 | 68.8 |
| **Comprehensive (loss) income** | $(179.2) | $287.6 |

*See accompanying notes.*

# FINRA Consolidated Statements of Changes in Equity

*(In millions)*

| | Equity | Net Unrecognized Employee Benefit Plan Amounts | Total |
|---|---|---|---|
| **Balance, January 1, 2021** | $1,600.6 | $(139.5) | $1,461.1 |
| Comprehensive income | 218.8 | 68.8 | 287.6 |
| **Balance, December 31, 2021** | 1,819.4 | (70.7) | 1,748.7 |
| Cumulative effect from change in accounting policies (1) | 57.9 | — | 57.9 |
| Comprehensive (loss) income | (218.1) | 38.9 | (179.2) |
| **Balance, December 31, 2022** | $1,659.2 | $ (31.8) | $1,627.4 |

(1) Effective January 1, 2022, we adopted ASU 2016-02, *Leases (Topic 842)*. See Note 2, "Summary of Significant Accounting Policies," for more information.

*See accompanying notes.*

# FINRA Consolidated Statements of Cash Flows

*(In millions)*

| | Years Ended December 31, 2022 | 2021 |
|---|---|---|
| **Reconciliation of net (loss) income to cash provided by (used in) operating activities** | | |
| Net (loss) income | $(218.1) | $ 218.8 |
| Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 24.1 | 24.5 |
| Net realized and unrealized investment losses (gains) | 166.9 | (105.3) |
| Bad debt expense | 5.4 | 18.9 |
| Other | (0.4) | (1.0) |
| Net change in operating assets and liabilities: | | |
| Receivables, net | (91.9) | 92.5 |
| Other current assets | (6.3) | (0.5) |
| Operating lease assets | 26.8 | — |
| Other assets | 1.5 | 1.0 |
| Accounts payable and accrued expenses | 29.4 | (5.0) |
| Accrued personnel and benefit costs | 0.3 | 3.3 |
| Deferred revenue | 0.1 | 8.3 |
| Deposits and renewals | 8.1 | 0.8 |
| Activity assessment fee payable | 293.6 | (273.9) |
| Other current liabilities | (6.0) | 1.5 |
| Accrued pension and other postretirement benefit costs | (13.8) | (11.8) |
| Operating lease liabilities | (26.7) | — |
| Other liabilities | 9.1 | 17.1 |
| **Net cash provided by (used in) operating activities** | $ 202.1 | $ (10.8) |

*See accompanying notes.*

# FINRA Consolidated Statements of Cash Flows (continued)

*(In millions)*

| | Years Ended December 31, 2022 | 2021 |
|---|---|---|
| **Cash flow from investing activities** | | |
| Net proceeds from purchases of fixed income securities | $ (33.1) | $(250.0) |
| Proceeds from redemptions of equity investments | 142.2 | 52.1 |
| Purchases of equity investments | (141.3) | (134.3) |
| Purchases of other investments | (37.0) | (30.7) |
| Proceeds from redemptions of other investments | 22.4 | — |
| Proceeds from sale of real estate | — | 125.2 |
| Net purchases of property and equipment | (20.9) | (43.1) |
| Other | (7.2) | (4.8) |
| *Cash flow from investing activities of the Consolidated Entity:* | | |
| Purchases of other investments | (27.9) | (18.8) |
| Proceeds from distributions of other investments | 62.4 | 53.0 |
| **Net cash used in investing activities** | (40.4) | (251.4) |
| | | |
| **Cash flow from financing activities** | | |
| Debt principal payments | — | (12.8) |
| **Net cash used in financing activities** | — | (12.8) |
| | | |
| Increase (decrease) in cash and cash equivalents | 161.7 | (275.0) |
| Cash and cash equivalents at beginning of year | 322.3 | 597.3 |
| **Cash and cash equivalents at end of year** | $ 484.0 | $ 322.3 |

*See accompanying notes.*

# FINRA 2022 Notes to Consolidated Financial Statements

**1. ORGANIZATION AND NATURE OF OPERATIONS**

References to the terms “we,” “our,” “us,” “FINRA” or the “Company” used throughout these Notes to Consolidated Financial Statements refer to the Financial Industry Regulatory Authority, Inc. (FINRA), a Delaware corporation, and its wholly owned subsidiaries. FINRA wholly owns the following significant subsidiaries: FINRA Regulation, Inc. (FINRA REG), FINRA CAT, LLC (FINRA CAT), and the 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 regulatory services pursuant to our own statutory responsibility and under contract for certain exchanges. Our statutory regulatory functions include examinations of securities firms, continuous 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 laws 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, alternative trading systems and broker-dealers to detect potential market manipulation and other rule violations. We conduct heightened and expedited investigations of allegations of serious fraud 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 regulatory services under contract for the New York Stock Exchange LLC (NYSE), NYSE Arca, Inc., NYSE American, LLC, NYSE Chicago, Inc., NYSE National, Inc., The Nasdaq Stock Market LLC (Nasdaq), Nasdaq BX, Inc., Nasdaq PHLX LLC, Nasdaq ISE, LLC, Nasdaq GEMX, LLC, Nasdaq MRX, LLC, Cboe Exchange, Inc., Cboe C2 Exchange, Inc., Cboe BZX Exchange, Inc., Cboe BYX Exchange, Inc., Cboe EDGA Exchange, Inc., Cboe EDGX Exchange, Inc., The Investors Exchange, the Boston Options Exchange, LLC, the Long-Term Stock Exchange, the Members Exchange, the Miami International Securities Exchange, LLC, MIAX EMERALD LLC, and MIAX PEARL LLC. We also regulate the over-the-counter (OTC) securities markets for listed and unlisted equities and conventional options, and the OTC markets for corporate bonds, Treasury securities and other government agency instruments, asset-backed 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 operational and support services to firms, other SROs, the U.S. Securities and Exchange Commission (SEC), the North American Securities Administrators Association, state regulators, the investing public, and the Conference of State Bank Supervisors and its wholly owned subsidiary, the State Regulatory Registry LLC (SRR). We continue to provide 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

**1. ORGANIZATION AND NATURE OF OPERATIONS (continued)**

securities, the OTC Reporting Facility™ (ORF™) and the Trade Reporting Facilities® (TRFs®), operated in partnership with NYSE and Nasdaq, for OTC trade reporting, as well as the Alternative Display Facility® (ADF®) for OTC trade reporting and quoting, in equity securities that are listed on an exchange. Starting with corporate bonds in 2002, TRACE now disseminates trade and pricing data on nearly every type of corporate debt security on the market. On September 1, 2022, FINRA successfully expanded TRACE to enable commercial banks to report certain transactions in U.S. Treasury and agency-issued securities. This initiative strengthened regulators' ability to oversee market activity and provided additional data to inform policymakers' decision-making regarding the world's largest government-securities market. Through our market transparency facilities, FINRA provides the public and professionals with timely trade information for equity and debt securities and quotes for certain equity securities.

Pursuant to a contract with Consolidated Audit Trail, LLC, FINRA CAT is responsible for all aspects of the build, maintenance and operation of the Consolidated Audit Trail (CAT), which is designed to provide regulators with an extensive audit trail of trades, quote and orders for all U.S. exchange-listed and OTC equities securities across all U.S. markets and trading venues, including associated customer and account information. The CAT also collects the same data for U.S. exchange-listed options contracts.

The Foundation empowers underserved Americans with the knowledge, skills and tools to make sound financial decisions throughout life. The Foundation pursues this mission through educational programs and research that help consumers achieve their financial goals and that protect them in a complex and dynamic world.

**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 the Company, its wholly owned subsidiaries and the Consolidated Entity. We account for the Consolidated Entity, a variable interest entity (VIE) for which the Company is the primary beneficiary, as an investment company that follows the industry specialized basis of accounting established by U.S. GAAP.

All intercompany balances and transactions have been eliminated 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, 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.

CONSOLIDATION

FINRA consolidates any VIE in which it is deemed to be the primary beneficiary and reflects the assets, liabilities, revenues, expenses and cash flows of the consolidated VIE on the consolidated financial statements. An entity is determined to be the primary beneficiary if it holds a controlling financial interest. A controlling financial interest is defined as (a) the power to direct the activities of a VIE that most significantly impact the entity's economic performance; and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The consolidation guidance requires an analysis to determine (a) whether an entity in which the Company holds a variable interest is a VIE; and (b) whether the Company's involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests such as management and performance-based fees, would give it a controlling financial interest. Performance of that analysis requires the exercise of judgment.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The Company determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a VIE and reconsiders that conclusion at each reporting date. In evaluating whether the Company is the primary beneficiary, FINRA evaluates its economic interests in the entity held either directly by the Company or indirectly through related parties. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that the Company is not the primary beneficiary, a quantitative analysis may also be performed.

Investments and redemptions (either by the Company, affiliates of the Company or third parties) or amendments to the governing documents of a VIE could affect an entity's status as a VIE or the determination of the primary beneficiary. At each reporting date, the Company assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly.

CASH AND CASH EQUIVALENTS

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

Additionally, cash held at the Consolidated Entity, included in cash and cash equivalents in the consolidated balance sheets, may include overnight investments and money market funds held with financial institutions. As of December 31, 2022 and 2021, the Consolidated Entity held no cash and cash equivalents in foreign currencies. Cash held at the Consolidated Entity represents cash that may only be used to settle obligations of the Consolidated Entity. Although not legally restricted, this cash is not available to fund the general liquidity needs of FINRA.

INVESTMENTS

*Fixed Income Investments*

At the time of purchase, we classify individual fixed income investments 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, and re-evaluate the classification at each balance sheet date. As of December 31, 2022 and 2021, all of our fixed income investments were classified as trading. Trading securities are carried at fair value, with changes in fair value recorded as a component of net realized and unrealized investment (losses) gains in the consolidated statements of operations. We present cash flows from purchases and sales of trading securities as investing activities based on the nature and purpose for which we acquired the securities.

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.

*Equity Investments*

We carry our equity security investments at fair value and record the subsequent changes in fair value in the consolidated statements of operations as a component of net realized and unrealized investment (losses) gains.

*Other Investments*

FINRA elected the fair value option for its investment in a pooled investment fund to better reflect the value of this investment. Such election is irrevocable and applied on a financial instrument by financial instrument basis at initial recognition. This pooled investment fund calculates net asset value per share (or its equivalent) as the investment account value in the absence of readily ascertainable market values to determine fair value.

Investments held in the Consolidated Entity include pooled investment vehicles without a readily determinable fair value. These investments are generally valued at the most recent net asset value per unit or capital account information from the general partners of such vehicles. Investment transactions are accounted for on a trade-date basis. For the purposes of determining net realized gains and losses, the Consolidated Entity uses a specific identification methodology.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Investments Receivable or Payable*

Investments receivable or 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.

RECEIVABLES, NET

The Company's receivables are primarily concentrated with FINRA-registered firms, associated persons and exchanges. The consolidated financial statements present receivables net of an allowance for uncollectible accounts. As of December 31, 2022 and 2021, an allowance for uncollectible accounts of $5.3 million and $4.8 million, respectively, was presented in the accompanying consolidated balance sheets within receivables, net. 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, 2022 and 2021, is primarily related to arbitration activities and fines. 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 collectability 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 we will collect.

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 | Shorter of term of lease or useful life of improvement |

Depreciation and amortization expense for property and equipment totaled $8.3 million and $10.3 million for 2022 and 2021, respectively.

On December 15, 2021, FINRA sold to a third party the land located at 9501 Key West Avenue, in Rockville, Maryland; the land and buildings located at 9509 Key West Avenue (Decoverly), 9513 Key West Avenue (Key West), and 15200 Omega Drive (Omega) in Rockville, Maryland; and the land and building located at 1735 K Street (K Street) in Washington, D.C. Subsequent to the sale, we leased back the Decoverly building for 12 years, and the Key West, Omega and K Street buildings for two years. As a result of the purchase, FINRA committed to total future minimum lease payments of $69.6 million over the next twelve years. The cash consideration we received was $125.2 million, representing the $128 million purchase price less adjustments for rents, fees and taxes.

As of December 31, 2021, we deferred $57.9 million of the net gain related to the sale and subsequent leaseback transaction. We included the deferred net gain in other current liabilities and other liabilities in the accompanying consolidated balance sheet as of December 31, 2021. We included the $1 million of net gain recognized from the sale and subsequent leaseback transaction, representing the amount of the gain that exceeded the present value of the minimum lease payments, in other income (expense) in the accompanying consolidated statement of operations for the year ended December 31, 2021.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

We adopted Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)* (ASC 842) on a modified retrospective basis as of January 1, 2022. Under this method of adoption, we recorded a cumulative-effect adjustment that increased the beginning balance of equity by $57.9 million on January 1, 2022. The cumulative-effect adjustment represents the release of the previously deferred net gain in other liabilities as the terms of the sale and subsequent leaseback transaction reflected market value.

SOFTWARE COSTS

FINRA capitalizes internal use software development costs incurred during the application development stage. Software costs we incur 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 hardware and amortize them using the straight-line method over their estimated useful life, generally two to five years. We expense all other purchased software as incurred.

We included unamortized capitalized software development costs of $53.6 million and $48.9 million as of December 31, 2022 and 2021, respectively, in the consolidated balance sheets within total property and equipment, net. There were $19.1 million and $18.1 million of net additions to capitalized software related to 2022 and 2021, respectively. We included amortization of capitalized internal use software costs totaling $14.4 million and $11.9 million related to 2022 and 2021, respectively, in depreciation and amortization in the consolidated statements of operations.

IMPAIRMENT OF LONG-LIVED ASSETS

We review our long-lived assets for impairment whenever facts and circumstances indicate that long-lived assets or other assets may be impaired. If indicators are present, 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 then prepare a discounted cash flow analysis to estimate fair value and the amount of any impairment. In 2022 and 2021, there were no indicators of long-lived asset impairment, and we did not recognize impairment charges.

LEASES

The Company adopted ASC 842, as amended, as of January 1, 2022, applying ASC 842 to lease arrangements outstanding as of the date of adoption. See Note 2, "*Recent Accounting Pronouncements*" for more details about the purpose of the new lease accounting standard and its impact on our consolidated financial statements.

The Company determines if an arrangement is a lease at inception. We recognize right-of-use (ROU) lease assets and lease liabilities at commencement date based on the present value of lease payments over the lease term. ROU lease assets represent the Company's right to use a leased asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. The operating lease assets include any lease payments made and exclude lease incentives. Lease terms include options to extend or terminate when it is reasonably certain that the Company will exercise that option. The Company does not recognize ROU lease assets and lease liabilities for leases with a term, after consideration of any extension options, of one year or less.

The Company's leases neither provide an implicit rate nor is the Company's incremental borrowing rate readily determinable. Therefore, upon the adoption of ASC 842, we made the policy election to use a risk-free discount rate for all leases, determined using a period comparable with that of the lease term. In addition, we have elected the practical expedient not to separate lease and non-lease components.

We include ROU assets and liabilities related to operating leases within operating lease assets and operating lease liabilities, respectively, in the Company's consolidated balance sheets. Lease expense for operating lease payments, which

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

is comprised of amortization of ROU lease assets and interest accretion on lease liabilities, is generally recognized on a straight-line basis over the lease term and included in occupancy expense in the consolidated statements of operations.

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 that states and other SROs charge.

ACTIVITY ASSESSMENT FEE PAYABLE

FINRA, as an SRO, pays certain fees and assessments pursuant to Section 31 of the Securities Exchange Act of 1934. These fees are designed to recover costs the government incurs to supervise and regulate securities markets and securities professionals, and are calculated based on the aggregate dollar amount of sales of covered securities transacted by or through any firm other than on a national securities exchange. Such covered transactions are reported to us through the ADF, ORF and the TRFs. We remit these activity assessment fees to the U.S. Department of 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. As of December 31, 2022 and 2021, we had $92.9 million and $26.1 million, respectively, of activity assessment fee receivables presented in the accompanying consolidated balance sheets within receivables, net.

INTEREST AND DIVIDEND INCOME

FINRA recognizes interest income from cash, fixed income and equity investments as it is earned. We recognize dividend income on the ex-dividend date. We account for interest and dividend income from the Consolidated Entity in the same manner.

CLOUD COMPUTING

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 $191.9 million and $142.9 million for the years ended December 31, 2022 and 2021, respectively, and were included in cloud computing and software expenses in the consolidated statements 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 retirees and their dependents. Eligible retirees pay the full premium cost to be enrolled in the Company's retiree medical coverage. Additionally, we provide a Retiree Medical Savings Plan to help our retirees offset health care premiums during retirement. Under the Retiree Medical Savings Plan, we create employer-funded defined contribution Retiree Medical Accounts for eligible employees and apply fixed annual credits 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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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. We develop the discount rate 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 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 we use are appropriate, differences in actual experience or changes in assumptions related to the ERP may materially affect our financial position.

INCOME TAXES

FINRA and FINRA REG are tax-exempt organizations under Internal Revenue Code (IRC) Section 501(c)(6). FINRA CAT is treated as a disregarded entity for federal income tax purposes in accordance with single member limited liability company rules. The Foundation is a tax-exempt organization under IRC Section 501(c)(4). However, unrelated business income activities are taxed at normal corporate rates to the extent that they result in taxable net income. We determine deferred tax assets and liabilities based on differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities (*i.e.*, temporary differences). We measure these assets and liabilities at the enacted rates that we expect will be in effect when we 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.

The Consolidated Entity has elected to be taxed as a Partnership for U.S. federal tax purposes. FINRA is responsible for reporting income or loss from the Consolidated Entity, to the extent required by the federal and state income tax laws, for income tax purposes.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject us to concentrations of credit risk consist of cash and cash equivalents, 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., which subjects us to credit risk should a financial institution be unable to fulfill its obligations. Risk on accounts receivable is reduced by the number of entities comprising our member firm base and through ongoing evaluation of collectability 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 certain fixed income and equity investments.

We maintain a broadly diversified investment portfolio, representing a wide range of assets and asset classes, to attain acceptable levels of risk and return. Our investment portfolio consists of investments in predominantly investment grade debt securities, publicly traded securities, mutual and commingled funds containing fixed income and equity securities, and other investments.

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

FINRA may be significantly affected by conditions in the global financial markets and economic conditions or events throughout the world that are outside of the control of management, including, but not limited to, disease, pandemics or other severe public health events, and national and international political circumstances.

RECENT ACCOUNTING PRONOUNCEMENTS

*New accounting pronouncements adopted in 2022*

The Company adopted ASC 842 as of January 1, 2022, using the modified retrospective transition method and did not restate the prior period. Using the modified retrospective approach, we applied the provisions of ASC 842 beginning in the period of adoption, and we recorded a cumulative-effect adjustment that increased the beginning balance of equity by $57.9 million on January 1, 2022. See Note 2, "*Property and Equipment*" for more information related to the cumulative-effect adjustment. We applied the package of practical expedients permitted under the transition guidance within the new standard, including carrying forward the historical lease classification and not reassessing whether certain costs capitalized under the prior guidance are eligible for capitalization under the new guidance. Adoption of ASC 842 resulted in the recognition of $196.4 million and $237.6 million of operating lease assets and liabilities, respectively, with the net of these amounts offsetting the deferred rent and tenant improvements liability in existence immediately prior to adoption.

*New accounting pronouncements adopted in 2021*

FINRA adopted the following accounting pronouncements on January 1, 2021, with no material effect on our consolidated financial statements:

- ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*.

*New accounting pronouncements to be adopted subsequent to December 31, 2022*

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 measure credit losses for most financial assets and certain other instruments that are not 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. Since the issuance of the ASU, various updates and amendments have been issued, including a deferral of the effective date by one year for entities that are not public business entities. FINRA adopted the new credit loss guidance on January 1, 2023, with no material impact on our consolidated financial statements.

**3. REVENUE FROM CONTRACTS WITH CUSTOMERS**

We recognize revenue when we transfer control of the promised goods or services to our customers, in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. We generate all of our revenue from contracts with customers.

**3. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)**

*Disaggregation of revenue*

The following table provides a summary of revenues by contract for the years ended December 31, 2022 and 2021, all of which is recognized over time.

| | Years ended December 31, | |
|---|---|---|
| | 2022 | 2021 |
| | *(in millions)* | |
| FINRA rules and by-laws | $1,025.3 | $1,124.0 |
| Regulatory agreements | 266.4 | 223.5 |
| Testing services agreements | 16.0 | 18.2 |
| All other contracts | 35.3 | 39.1 |
| Net revenues | $1,343.0 | $1,404.8 |

We generally recognize revenue over time as we perform services. We measure our progress in completing these services based upon the passage of time. This method faithfully depicts our performance of transferring control of the services to the customer as our customers simultaneously receive and consume the benefits provided by our performance.

The following is a description of our contracts with customers.

*FINRA rules and by-laws*

FINRA's rules and by-laws govern the relationship between FINRA and its members. We provide the following supervision of our members: i) oversight services; ii) member application, associated person registration and qualification services; and iii) transparency services. Oversight services include surveillance; member and market examinations; enforcement and disciplinary procedures; fraud detection; dispute resolution; and rulemaking and policies. Member application, associated person registration and qualification services include broker-dealer firm member applications; associated person and branch office registrations; and qualification exams and continuing education. Transparency services include the management and operation of FINRA's OTC market transparency facilities, such as TRACE and ORF, which provide the public and professionals with timely market information for debt and equity securities. Revenues related to FINRA's rules and by-laws are included in regulatory, fines and user revenues in our consolidated statements of operations.

Consideration is due as the services are rendered. Consideration for services provided in accordance with our rules and by-laws is variable, taking into account provisions for adjustments, refunds, rebates, fee waivers and penalties for late filings. Our estimate of variable consideration is not typically constrained, as the effects of such variable consideration are known to us prior to the release of our consolidated financial statements.

*Regulatory agreements*

We have various regulatory agreements through which we provide regulatory services, such as surveillance reviews, investigations, examinations and disciplinary functions. Pursuant to a contract with Consolidated Audit Trail, LLC, FINRA CAT is responsible for all aspects of the build, maintenance and operation of the CAT, including recurring operations and production milestones, cloud hosting, and customer account and database services. We include revenues related to our regulatory agreements in contract services revenues in our consolidated statements of operations. Consideration is due as services are rendered. Consideration for services provided in accordance with our regulatory agreements is variable, taking into account provisions for cost-of-living adjustments, changes in the scope of services and changes in trading volumes. Our estimate of variable consideration related to our provision of regulatory services is not typically constrained, as the effects of such variable consideration are known to us prior to the release of our consolidated financial statements. Our estimate of variable consideration related to the CAT responsibilities is typically constrained by the amount of future

**3. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)**

milestone payments. We are required to update our estimate of variable consideration, including any constrained amounts, at the end of each reporting period to reflect our revised expectations of the amount of consideration to which we expect to be entitled.

*Testing services agreements*

We have testing services agreements for the benefit of investment advisers and mortgage brokers. Under these contracts, we provide testing registration, maintenance and delivery of qualification examinations. We record revenues related to our testing services agreements in user and contract services revenues in our consolidated statements of operations. Consideration is due as services are rendered. Consideration for services provided in accordance with our testing services agreements is variable, taking into account provisions for base exam fees plus adjustments for the cancellation, no-show and rescheduling of exams. Our estimate of variable consideration is not typically constrained, as the effects of such variable consideration are known to us prior to the release of our consolidated financial statements.

*All other contracts*

All other contracts primarily include contracts related to our administration of the Investment Adviser Registration Depository program, provision of OTC data to the Nasdaq Unlisted Trading Privileges plan and mortgage licensing system maintenance agreement. Consideration for these services is variable and due as services are rendered. Our estimate of variable consideration is not typically constrained, as the effects of such variable consideration are known to us prior to the release of our consolidated financial statements.

*Contract balances*

The following table provides information about receivables and contract liabilities from contracts with customers as of December 31, 2022 and 2021:

| | As of December 31, | |
|---|---|---|
| | 2022 | 2021 |
| | *(in millions)* | |
| Receivables, net | $197.9 | $108.4 |
| Current deferred revenue | 67.2 | 67.1 |

See Note 2, "*Receivables, Net*" for additional information about our receivables balances.

Deferred revenue for the years ended December 31, 2022 and 2021, primarily consists of prepayments of registration and renewal fees, annual assessments, and arbitration and mediation fees under FINRA's rules and by-laws. The revenue recognized from contract liabilities and the remaining balance is shown below:

| | January 1, 2022 | Additions (1) | Revenue recognition | December 31, 2022 |
|---|---|---|---|---|
| | | *(in millions)* | | |
| Registration and renewal (2) | $62.7 | $ 85.8 | $ (85.2) | $63.3 |
| Assessments (3) | — | 325.6 | (325.6) | — |
| Arbitration and mediation (4) | 3.5 | 7.2 | (7.1) | 3.6 |
| Regulatory (5) | 0.9 | 0.5 | (1.1) | 0.3 |
| Total deferred revenue | $67.1 | $419.1 | $(419.0) | $67.2 |

**3. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)**

| | January 1, 2021 | Additions (1) | Revenue recognition | December 31, 2021 |
|---|---|---|---|---|
| | | *(in millions)* | | |
| Registration and renewal (2) | $55.2 | $ 80.9 | $ (73.4) | $62.7 |
| Assessments (3) | — | 280.7 | (280.7) | — |
| Arbitration and mediation (4) | 3.6 | 7.5 | (7.6) | 3.5 |
| Regulatory (5) | — | 0.9 | — | 0.9 |
| Total deferred revenue | $58.8 | $370.0 | $(361.7) | $67.1 |

(1) Additions reflect fees charged during the period.

(2) We assess fees for initial registrations, membership applications and renewals of FINRA member firms, registered representatives, principals and branch offices primarily to cover CRD system processing. These registration and renewal fees are amortized and recorded ratably over the annual period to which they apply.

(3) Annually, each FINRA member is charged assessments based on: 1) their gross income; and 2) the member's number of registered representatives and principals. These fees support the supervision and regulation of firms through examination, policy making, rulemaking and enforcement activities performed each year. These fees are amortized and recorded ratably over the annual period to which they apply.

(4) Arbitration and mediation filings and arbitration member surcharges provide a material right, access to FINRA's arbitration and mediation forums. As such, these fees are amortized and recorded over the period of benefit of the fee. We have determined the period of benefit to be the average turnaround time for an arbitration case (14 months) or mediation case (four months).

(5) Fees are assessed for regulatory services provided to customers. These regulatory agreement fees are recorded ratably over the period to which they apply.

**4. INVESTMENTS**

FINRA owns a diverse investment portfolio consisting of 1) U.S. government (and state and local) securities; 2) mortgage-backed securities; 3) corporate and asset-backed securities; 4) mutual and commingled funds; 5) other investments (including a pooled investment fund); and 6) other financial instruments. Our investment policy strives to preserve principal, in real terms, while seeking to earn a long-term rate of return commensurate with the degree of risk deemed appropriate by the Board. We execute our investment strategy through separately managed accounts and direct investments. FINRA's investment portfolio consisted of the following as of:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| | *(in millions)* | |
| Fixed income investments | $ 695.2 | $ 726.4 |
| Equity investments | 676.5 | 760.8 |
| Other investments: | | |
| Pooled investment fund | 252.5 | 206.9 |
| Investments of Consolidated Entity | 209.9 | 258.2 |
| Other | 0.3 | 0.3 |
| Total other investments | 462.7 | 465.4 |
| Total | $1,834.4 | $1,952.6 |

FIXED INCOME INVESTMENTS

We classified our fixed income investments as trading based on their nature, and our intent and ability to sell or to hold the securities. Our fixed income portfolio was managed by an external investment manager, who had the authority to buy

**4. INVESTMENTS (CONTINUED)**

and sell investments within pre-established parameters. The primary objective of our fixed income investments is to provide protection of capital and long-term total return through investment in high-quality, stable assets. Our fixed income investments, summarized based on the primary industry of the issuers, are disclosed in Note 5, “Fair Value Measurement.”

EQUITY INVESTMENTS

FINRA’s equity investments consisted of the following:

| | Cost | Net unrealized gain (loss) | Fair value |
|---|---|---|---|
| | | *(in millions)* | |
| As of December 31, 2022: | | | |
| Commingled funds | $387.9 | $ (29.7) | $358.2 |
| Mutual funds | 162.8 | 31.8 | 194.6 |
| Publicly traded securities | 117.9 | 5.8 | 123.7 |
| Total | $668.6 | $ 7.9 | $676.5 |
| As of December 31, 2021: | | | |
| Commingled funds | $487.0 | $ 69.4 | $556.4 |
| Mutual funds | 145.3 | 59.1 | 204.4 |
| Total | $632.3 | $128.5 | $760.8 |

Our commingled funds employ a variety of strategies, including exposures to domestic fixed income and equity securities, and international equity securities. Some of our mutual funds—which consist of funds invested in domestic bonds, domestic and international equities, and a life-cycle fund focused on asset allocation through investments in other mutual funds, primarily in bonds with the remainder in equities—relate to our deferred compensation plan for officers, our supplemental defined contribution plan for senior officers and our closed defined benefit SERP obligation. Additionally, the portfolio includes mutual funds that invest in high-quality domestic companies with a dividend focus and international equities. Finally, our publicly traded securities, managed by an external investment manager, are primarily in high-quality companies across the world.

OTHER INVESTMENTS

As of December 31, 2022 and 2021, our other investments consisted of a pooled investment fund and investments of the Consolidated Entity.

*Pooled Investment Fund*

FINRA invests in a pooled investment fund for which the fair value option was elected. The fund’s portfolio maintains broad diversification across multiple investment strategies that is intended to reduce volatility and produce downside protection. As of December 31, 2022 and 2021, the carrying value of the fund is $252.5 million and $206.9 million, respectively, included in other investments in the consolidated balance sheets. During the years ended December 31, 2022 and 2021, we made contributions of $37 million and $23.2 million, respectively, to the fund. We did not redeem from the fund during 2022 and 2021. We did not record interest and dividends during 2022 and 2021.

**4. INVESTMENTS (CONTINUED)**

*Consolidated Entity and Investments of the Consolidated Entity*

FINRA holds a 100 percent equity interest in the Consolidated Entity, and the general partner of the Consolidated Entity is fully independent of FINRA management and its Board. The objective of the Consolidated Entity is to maximize risk-adjusted returns over the long-term horizon through potential investment in a wide array of investments and strategies. The following table summarizes 2022 and 2021 activity related to the Consolidated Entity.

| | Consolidated Entity |
|---|---|
| | *(in millions)* |
| Balance, January 1, 2021 | $236.5 |
| Investment gains | 46.7 |
| Contributions | 7.0 |
| Distributions | (36.8) |
| Balance, December 31, 2021 | 253.4 |
| Investment losses | (15.0) |
| Contributions | — |
| Distributions | (24.4) |
| Balance, December 31, 2022 | $214.0 |

As of December 31, 2022 and 2021, the carrying value of the net assets and liabilities of the Consolidated Entity was $214 million and $253.4 million, respectively, which represented its maximum risk of loss as of those dates. During 2022, the carrying value of the net assets and liabilities of the Consolidated Entity decreased by $39.4 million, resulting from $15 million of investment losses and $24.4 million in distributions. During 2021, the carrying value of the net assets and liabilities of the Consolidated Entity increased by $16.9 million, resulting from $46.7 million of investment gains and $7 million of contributions, net of $36.8 million in distributions. The assets of the Consolidated Entity primarily consisted of cash and investments, while the liabilities primarily represented accrued expenses of the Consolidated Entity. The assets of the Consolidated Entity may be used only to settle obligations of the Consolidated Entity. In addition, there is no recourse to the Company for the Consolidated Entity's liabilities.

Investments held by the Consolidated Entity, summarized below, primarily consist of limited partnerships managed by the investment manager of the Consolidated Entity, as well as hedge funds, private equity funds or similar investment vehicles managed by external managers directly or through subsidiary funds that are controlled by the investment manager of the Consolidated Entity. These investments are included in other investments in the accompanying consolidated balance sheets. The Consolidated Entity's net assets consist primarily of its investments accounted for at fair value; the majority of the Consolidated Entity's fair value measurements are based on the estimates made by the general partner of the Consolidated Entity. The investment strategy of these limited partnerships is multi-strategy.

| | Fair value as of December 31, 2022 | Fair value as a percentage of investments of Consolidated Entity as of December 31, 2022 |
|---|---|---|
| | *(in millions)* | |
| Investments of Consolidated Entity | | |
| North America | | |
| HighVista Master Fund LP | $109.0 | 52.0% |
| Other | 100.9 | 48.0% |
| Total investments (cost $162.7 million) | $209.9 | 100.0% |

**4. INVESTMENTS (CONTINUED)**

As of December 31, 2022, no underlying investment held by these limited partnerships had a fair value that exceeded 5 percent of FINRA's total consolidated equity.

INVESTMENT GAINS AND LOSSES

Investment gains and losses for each of the two years ending December 31, 2022, are summarized below:

| | Fixed income investments | Equity investments | Pooled investment fund | Investments of Consolidated Entity | Total |
|---|---|---|---|---|---|
| | | | *(in millions)* | | |
| For the year ending December 31, 2022 | | | | | |
| Unrealized investment (losses) gains on securities held at the end of the period | $(49.4) | $(84.4) | $ 8.6 | $(24.1) | $(149.3) |
| Investment losses on securities sold during the period | (13.7) | (19.8) | — | 10.6 | (22.9) |
| Other gains (losses) | — | 5.7 | (0.4) | — | 5.3 |
| Total | $(63.1) | $(98.5) | $ 8.2 | $(13.5) | $(166.9) |
| For the year ending December 31, 2021 | | | | | |
| Unrealized investment gains (losses) on securities held at the end of the period | $(21.9) | $ 36.2 | $12.6 | $ 43.5 | $ 70.4 |
| Investment gains on securities sold during the period | 6.7 | 15.8 | — | 8.7 | 31.2 |
| Other gains (losses) | (1.2) | 4.9 | — | — | 3.7 |
| Total | $(16.4) | $ 56.9 | $12.6 | $ 52.2 | $ 105.3 |

Realized and unrealized gains and losses on our investments, including investments of the Consolidated Entity, are included in net realized and unrealized (losses) gains in the consolidated statements of operations. Unrealized gains or losses result from changes in the fair value of these investments. Upon disposition of an investment, unrealized gains or losses are reversed and an offsetting realized gain or loss is recognized in the period the disposition occurs.

**5. FAIR VALUE MEASUREMENT**

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

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

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

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

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

**5. FAIR VALUE MEASUREMENT (CONTINUED)**

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, 2022, and indicates the fair value hierarchy of the valuation techniques used to determine fair value:

| | | Fair Value Measurement at December 31, 2022 | |
|---|---|---|---|
| Description | Total carrying amount in consolidated balance sheet | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) |
| | | *(in millions)* | |
| Assets: | | | |
| Fixed income investments (a) | | | |
| Corporate debt securities | | | |
| Industrial | $ 113.7 | $ — | $ 113.7 |
| Banking | 110.8 | — | 110.8 |
| Insurance | 63.7 | — | 63.7 |
| Utility | 45.3 | — | 45.3 |
| Other financial institution | 40.1 | — | 40.1 |
| Government securities | | | |
| U.S. Treasury | 140.5 | 140.5 | — |
| Other government securities | 25.0 | — | 25.0 |
| Mortgage-backed securities | | | |
| Collateralized mortgage obligations | 55.9 | — | 55.9 |
| Non-agency | 21.2 | — | 21.2 |
| Agency | 18.4 | — | 18.4 |
| Asset-backed securities | | | |
| Collateralized loan obligations | 44.9 | — | 44.9 |
| Other | 15.7 | — | 15.7 |
| Equity investments | | | |
| Commingled funds | | | |
| U.S. fixed income | 275.3 | — | 275.3 |
| U.S. equity | 64.7 | — | 64.7 |
| Other | 18.2 | — | 18.2 |
| Mutual funds | | | |
| U.S. equity | 137.0 | 137.0 | — |
| Other | 57.6 | 57.6 | — |
| Publicly traded securities | | | |
| Europe | 58.5 | 58.5 | — |
| Asia | 51.1 | 51.1 | — |
| Other regions | 14.1 | 14.1 | — |
| Total assets in the fair value hierarchy | 1,371.7 | 458.8 | 912.9 |
| Pooled investment fund, measured at net asset value (b) (c) | 252.5 | — | — |
| Investments of Consolidated Entity (b) (d) | 209.9 | — | — |
| Total assets measured at fair value | $1,834.1 | $ 458.8 | $ 912.9 |

**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, 2021, and indicates the fair value hierarchy of the valuation techniques used to determine fair value:

| Description | Total carrying amount in consolidated balance sheet | Fair Value Measurement at December 31, 2021<br>Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) |
|---|---|---|---|
| | | *(in millions)* | |
| Assets: | | | |
| Fixed income investments (a) | | | |
| Corporate debt securities | | | |
| Banking | $ 141.0 | $ — | $ 141.0 |
| Industrial | 105.3 | — | 105.3 |
| Consumer non-cyclical | 48.3 | — | 48.3 |
| Utility | 45.9 | — | 45.9 |
| Insurance | 45.2 | — | 45.2 |
| Financial institution | 34.1 | — | 34.1 |
| Government securities | 171.3 | 138.1 | 33.2 |
| Mortgage-backed securities | | | |
| Collateralized mortgage obligations | 36.5 | — | 36.5 |
| Non-agency | 26.7 | — | 26.7 |
| Agency | 17.1 | — | 17.1 |
| Asset-backed securities | | | |
| Collateralized loan obligations | 46.5 | — | 46.5 |
| Other | 8.5 | — | 8.5 |
| Equity investments | | | |
| Mutual funds | | | |
| U.S. equity | 144.0 | 144.0 | — |
| Other | 60.4 | 60.4 | — |
| Commingled funds | | | |
| U.S. fixed income | 314.3 | — | 314.3 |
| International equity | 170.8 | — | 170.8 |
| U.S. equity | 71.3 | — | 71.3 |
| Total assets in the fair value hierarchy | 1,487.2 | 342.5 | 1,144.7 |
| Pooled investment fund, measured at net asset value (b) (c) | 206.9 | — | — |
| Investments of Consolidated Entity (b) (d) | 258.2 | — | — |
| Total assets measured at fair value | $1,952.3 | $342.5 | $1,144.7 |

(a) As of December 31, 2022, and 2021, the Company's fixed income investments are geographically concentrated in the U.S., with about one-quarter of the fixed income investments whose issuers are incorporated in 19 and 22 foreign jurisdictions, respectively. Among the non-U.S. investments, the Company has over one-quarter of these fixed income investments whose issuers are incorporated in the Cayman Islands, and these investments are categorized in collateralized loan obligations within asset-backed securities.

(b) In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share practical expedient have not been classified in the fair value hierarchy. The fair value amount

**5. FAIR VALUE MEASUREMENT (CONTINUED)**

presented in this table is intended to permit reconciliation of the fair value hierarchy to the fair value of assets presented in the consolidated balance sheets.

(c) The Company invests in a pooled investment fund for which the fair value option has been elected. This investment is an offshore feeder fund in a "master-feeder" structure, and substantially all its capital is invested in the master fund. The master fund's investment objectives include producing risk-adjusted returns while maintaining low correlation to traditional markets by taking long and short positions in major equities, fixed income, currencies and commodities markets offering a high level of liquidity, as well as investments in other pooled investment vehicles. This investment generally has a redemption notice period of no less than 95 days, and shares may be redeemed on a semiannual (June 30 and December 31) basis. We do not have any outstanding capital commitments related to this investment.

(d) The investments of the Consolidated Entity consist of limited partnerships managed by the investment manager of the Consolidated Entity as well as hedge funds, private equity funds or similar investment vehicles. These investments generally employ a diversified investment strategy. The fair value of the investments of the Consolidated Entity is measured at net asset value on the balance sheet date. The investment manager of the Consolidated Entity has a valuation committee consisting of its key officers and select members of the investment operations team for the investment manager. The valuation committee reviews and approves valuations for all investments for which the third-party administrator is unable to obtain a price independently. The Consolidated Entity had unfunded commitments through its investment in limited partnerships of $58.2 million and $59.6 million as of December 31, 2022 and 2021, respectively. Capital calls will be funded with available cash held by the Consolidated Entity or by liquidating investments of the Consolidated Entity, as needed. The underlying investments held by these limited partnerships may be subject to various levels of liquidity restrictions.

As of December 31, 2022 and 2021, we had no investments categorized in Level 3 of the fair value hierarchy.

Changes in the fair value of our fixed income, equity and other investments measured at net asset value are recorded as a component of net realized and unrealized investment (losses) gains in the consolidated statements of operations.

The following is a description of the valuation methodologies we use 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 Investments*

All our fixed income investments are priced using the services of third-party pricing vendors; however, pricing for some of the U.S. Government securities are publicly available. These vendors use 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 investments is categorized in Levels 1 and 2 of the fair value hierarchy.

We independently validate the fair value measurement of our fixed income investments 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 Investments*

Commingled funds are valued at the quoted net asset value per unit, computed as of the close of business on the balance sheet date. Units of these investments are valued daily and a unit-holder's ability to transact in the funds' units occurs

**5. FAIR VALUE MEASUREMENT (CONTINUED)**

daily; however, units are not traded on an active exchange. As the fair value per unit is readily determinable, the valuation of these investments is categorized in Level 2 of the fair value hierarchy.

Mutual funds 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. Publicly traded securities listed or traded on a securities exchange are valued at the last quoted price the security is traded. Accordingly, the valuation of these investments is categorized in Level 1 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). FINRA CAT is treated as a disregarded entity for federal income tax purposes in accordance with single member limited liability company rules.

*Unrelated Business Taxable Income*

Unrelated business taxable income (UBTI) 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.

FINRA has a federal deferred tax asset (DTA) of $6.2 million and $6.5 million as of December 31, 2022 and 2021, respectively. The DTA arose from net operating losses (NOLs) in FINRA's UBTI activities and is fully reserved with a valuation allowance of $(6.2) million and $(6.5) million as of December 31, 2022 and 2021, respectively. There were no other significant deferred tax assets related to unrelated business income. The 2022 and 2021 income tax provision of $0.8 million and $2.5 million, respectively, primarily represented the net change in deferred tax assets related to unrelated business loss carryforwards during the year in addition to state income tax and other minor taxes, fees and adjustments. The unrelated business loss carryforwards are expected to expire beginning in 2023 through 2028. The income tax provision was included in other income (expense) in the consolidated statements of operations.

We did not have any significant unrelated business income taxes payable in 2022 or 2021.

*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 2019 through 2022, 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. Additionally, FINRA has not recognized any material uncertain tax positions related to the prior NOLs.

**7. EMPLOYEE BENEFIT LIABILITIES**

BENEFIT PLANS

The following table summarizes the benefit plans FINRA offers.

| Plan | Eligible employees |
|---|---|
| Defined benefit ERP | Fewer than 350 current employees not previously transitioned out of the plan (closed to new participants) |
| Defined benefit SERP | Two 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 | Fewer than 100 retirees who opted into the plan (closed to new participants) |
| Voluntary contributory savings plan | All active employees |
| Defined contribution component of 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. The benefits of those participants who previously transitioned out of the ERP were frozen at the time of transition and will be made available to them upon retirement.

*Retiree Medical Plan*

The Company maintains the Retiree Medical Plan to provide health benefits to eligible retired employees and their eligible dependents. Eligible retirees pay the full premium cost to be enrolled in the Company's retiree medical coverage. Under the Retiree Medical Plan, the Company offers a Retiree Medical Savings Plan that provides eligible retirees with credits retirees can use to help pay for health care premiums during retirement. Included in the Retiree Medical Plan are Retiree Medical Accounts created for eligible employees and retirees with fixed annual credits applied to those accounts for each year of FINRA service beginning at age 40, and accrual of credits for a portion of the active employee's unused vacation and personal leave. Employees can access the credits only in retirement and may use the credits only toward paying a portion of monthly premiums under FINRA-sponsored retiree health plans.

*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 to new participants.

**7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)**

*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 6 percent of base compensation.

The savings plan expense for 2022 and 2021 was $31.3 million and $29.4 million, respectively, which was included within compensation and benefits expense in the consolidated statements of operations.

*Defined Contribution Component of the Savings Plan*

FINRA offers a defined contribution component of the savings plan to all eligible employees not currently participating in the ERP.

The Company's contributions for this component are based on a 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 of the savings plan for 2022 and 2021 were $28.3 million and $30.6 million, respectively, which were included within compensation and benefits expense in the consolidated statements of operations.

*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, 2022, $27.4 million of investments and $27.4 million of amounts due to plan participants were included in equity 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, 2021, $32.6 million of investments and $32.6 million of amounts due to plan participants were included in equity 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, 2022 and 2021, FINRA made no additional contributions to this plan.

*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, 2022, $22.6 million of investments and $22.6 million of amounts due to plan participants were included in equity 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, 2021, $24.7 million of investments and $24.7 million of amounts due to plan participants were included in equity investments and accrued personnel and benefit costs in the consolidated balance sheet, representing FINRA's contributions to this plan and accrued earnings.

**7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)**

PLAN DISCLOSURES

The following tables disclose information related to our "Pension Plans," which include the ERP and SERP described above, and "Other Plans," which include the retiree medical 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, 2022 and 2021, and the accumulated benefit obligation at December 31, 2022 and 2021, were as follows:

| | Pension Plans | | Other Plans | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | *(in millions)* | | | |
| **Change in benefit obligation** | | | | |
| Benefit obligation at beginning of period | $ 719.6 | $775.2 | $ 96.3 | $ 97.7 |
| Service cost | 13.0 | 13.9 | 3.9 | 4.1 |
| Interest cost | 19.9 | 18.7 | 2.7 | 2.3 |
| Actuarial (gains) losses | (189.7) | (39.0) | (26.8) | (5.1) |
| Benefits paid | (36.7) | (49.2) | (2.6) | (2.7) |
| Benefit obligation at end of period | $ 526.1 | $719.6 | $ 73.5 | $ 96.3 |
| **Change in plan assets** | | | | |
| Fair value of plan assets at beginning of period | $ 636.3 | $611.2 | $ — | $ — |
| Actual return on plan assets | (145.4) | 48.7 | — | — |
| Company contributions | 17.4 | 25.6 | 2.6 | 2.7 |
| Benefits paid | (36.7) | (49.2) | (2.6) | (2.7) |
| Fair value of plan assets at end of period | $ 471.6 | $636.3 | $ — | $ — |
| Underfunded status of the plan | $ (54.5) | $ (83.3) | $(73.5) | $(96.3) |
| Accumulated benefit obligation | $ 478.0 | $661.7 | | |

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

| | Pension Plans | | Other Plans | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | *(in millions)* | | | |
| Current | $ 0.8 | $ — | $ 3.0 | $ 2.7 |
| Noncurrent | 53.7 | 83.3 | 70.5 | 93.6 |
| Net amount at December 31 | $54.5 | $83.3 | $73.5 | $96.3 |

There are no plan assets for the SERP, retiree medical and postretirement life insurance benefit plans. The current portion of SERP 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.

**7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)**

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

| | Pension Plans | | Other Plans | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | *(in millions)* | | | |
| Service cost | $ 13.0 | $ 13.9 | $3.9 | $4.1 |
| Interest cost | 19.9 | 18.7 | 2.7 | 2.3 |
| Expected return on plan assets | (32.3) | (30.9) | — | — |
| Recognized net actuarial losses | — | 2.6 | 0.1 | 0.4 |
| Prior service cost recognized | — | — | — | 0.6 |
| Settlement expense | — | 3.3 | — | — |
| Net periodic benefit cost | $ 0.6 | $ 7.6 | $6.7 | $7.4 |

Service cost was included in compensation and benefits expense in the consolidated statements of operations. All other components of net periodic benefit cost were included in other income (expense) in the consolidated statements of operations.

The assumed health care cost trend rate we will use for the next year to measure the expected cost of other plan liabilities is 7.9 percent, with a gradual decline to 6.7 percent by the year 2027. 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 loss at December 31, 2022 and 2021, were as follows:

| | Pension Plans | | Other Plans | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | *(in millions)* | | | |
| Unrecognized net actuarial (loss) gain | $(48.1) | $(60.1) | $16.3 | $(10.6) |

The following amounts were included in other comprehensive gain during 2022:

| | Incurred but not yet recognized in net periodic benefit cost | Reclassification adjustment for prior period amounts recognized |
|---|---|---|
| | *(in millions)* | |
| **Actuarial (losses) gains** | | |
| Pension plans | $12.0 | $ — |
| Other plans | 26.8 | 0.1 |
| | $38.8 | $0.1 |

The weighted-average assumptions used to determine benefit obligations for the years ended December 31, 2022 and 2021, were as follows:

| | Pension Plans | | Other Plans | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Discount rate | 5.03% | 2.82% | 5.01% | 2.71% |
| Rate of compensation increase | 3.00% | 3.00% | — | — |

**7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)**

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

| | Pension Plans | | Other Plans | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Discount rate | 2.82% | 2.48% | 2.71% | 2.33% |
| Rate of compensation increase | 3.00% | 3.00% | — | — |
| Expected return on plan assets | 5.25% | 5.25% | — | — |

We use the assumptions above to develop the benefit obligations at year end and to develop the net periodic benefit cost for the subsequent year. Therefore, the assumptions we use to determine benefit obligations are established at each year end while the assumptions we use 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 2023 net periodic benefit cost is 6.30 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.

PLAN ASSETS

We fund our ERP obligation, and we have established an irrevocable rabbi trust to fund our SERP obligation. The retiree medical 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, 2022 and 2021, $0.4 million and $0.4 million, respectively, of investments were included in equity 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 assisted by outside counsel, investment advisors and actuaries. The Investment and Compensation and Human Capital 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. As the funded status of the plan improves, the plan will assume less risk through reductions in return-seeking exposure and/or improved matching of fixed income assets with liabilities.

We allocate the ERP assets 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 entity that derives a certain threshold of revenue from broker-dealer activities. We review asset allocations quarterly and make adjustments, 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.

**7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)**

The ERP assets consisted of the following as of December 31, 2022 and 2021:

| | 2022 Target Allocation | 2022 | 2021 |
|---|---|---|---|
| Equity securities: | | | |
| U.S. equity | 15.2% | 14.8% | 16.2% |
| Non-U.S. equity | 12.0% | 13.2% | 14.3% |
| Global equity | 18.4% | 18.6% | 20.4% |
| U.S. fixed income securities | 50.7% | 49.8% | 45.0% |
| Alternative investments | 2.4% | 2.4% | 2.8% |
| Cash equivalents | 1.3% | 1.2% | 1.3% |
| Total | 100.0% | 100.0% | 100.0% |

The expected long-term rate of return for the plan's total assets is based on the expected returns of each of the above categories, weighted based on the current target allocation for each class. At least annually, the Pension Committee evaluates whether adjustments are needed based on historical returns to more accurately reflect expectations of future returns.

The following tables present information about the fair value of the Company's ERP assets at December 31, 2022 and 2021, by asset category, and indicate the fair value hierarchy of the valuation techniques used to determine fair value:

| | Fair Value Measurement at December 31, 2022 Measured Using | | |
|---|---|---|---|
| Description | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Total |
| | *(in millions)* | | |
| Cash and cash equivalents | $ 7.4 | $ — | $ 7.4 |
| U.S. Government securities | 7.6 | — | 7.6 |
| Corporate debt instruments | — | 9.0 | 9.0 |
| Corporate stocks | 10.3 | — | 10.3 |
| Common/collective trusts (a): | | | |
| Equity | — | 196.3 | 196.3 |
| Fixed income | — | 143.3 | 143.3 |
| Registered investment companies: | | | |
| Equity | 12.6 | — | 12.6 |
| Fixed income (b) | 10.3 | 80.3 | 90.6 |
| Other | — | 0.7 | 0.7 |
| Total assets in the fair value hierarchy | 48.2 | 429.6 | 477.8 |
| Partnership/joint venture interests measured at net asset value (c): | — | — | 1.1 |
| Payables, net (1) | — | — | (7.3) |
| Total | $48.2 | $429.6 | $471.6 |

**7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)**

| Description | Fair Value Measurement at December 31, 2021 Measured Using: Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Total |
|---|---|---|---|
| | *(in millions)* | | |
| Cash and cash equivalents | $10.2 | $ — | $ 10.2 |
| U.S. Government securities | 10.7 | — | 10.7 |
| Corporate debt instruments | — | 8.6 | 8.6 |
| Corporate stocks | 16.3 | — | 16.3 |
| Common/collective trusts (a): | | | |
| Equity | — | 289.4 | 289.4 |
| Fixed income | — | 175.8 | 175.8 |
| Registered investment companies: | | | |
| Equity | 18.3 | — | 18.3 |
| Fixed income (b) | 16.7 | 96.8 | 113.5 |
| Other | — | 0.7 | 0.7 |
| Total assets in the fair value hierarchy | 72.2 | 571.3 | 643.5 |
| Partnership/joint venture interests measured at net asset value (c): | — | — | 1.0 |
| Payables, net (1) | — | — | (8.2) |
| Total | $72.2 | $571.3 | $636.3 |

(1) Represents pending trades at December 31, 2022 and 2021.

(a) Includes common/collective trusts that invest in both domestic and international equity and fixed income strategies. 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 these investments 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.

(b) Includes registered investment companies that invest in domestic fixed income securities. Fair values are readily available and have been estimated using the net asset value per share of the funds. Investments included in this category include registered investment companies that are publicly traded and private placement securities. Investment objectives primarily seek maximum total returns. Shares of these investments are valued and transacted daily; however, shares through private placement are not available on an active exchange. As the fair value per share is readily determinable, the valuation of these securities is categorized in Level 1 and Level 2 of the fair value hierarchy.

(c) In accordance with ASC Subtopic 820-10, 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 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 investment.

For the years ended December 31, 2022 and 2021, there were no transfers between Level 1, Level 2 or Level 3 of the fair value hierarchy.

**7. EMPLOYEE BENEFIT LIABILITIES (CONTINUED)**

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." 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 the plan up to at least 100 percent of the ERP's funding target liability as set forth by the Internal Revenue Service. In 2023, we expect to contribute $27 million to the ERP. We do not expect to contribute to the SERP in 2023. 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, | | |
| 2023 | $ 28.8 | $ 5.6 |
| 2024 | 32.5 | 6.1 |
| 2025 | 36.7 | 7.9 |
| 2026 | 34.9 | 8.2 |
| 2027 | 39.9 | 10.1 |
| 2028 through 2032 | 211.6 | 67.5 |
| Total | $384.4 | $105.4 |

**8. ACCUMULATED OTHER COMPREHENSIVE LOSS**

The following is a summary of changes in accumulated other comprehensive loss as of December 31, 2022 and 2021. All amounts in accumulated other comprehensive loss relate to net unrecognized employee benefit plan amounts.

| | Total |
|---|---|
| | *(millions)* |
| Balance, January 1, 2021 | $(139.5) |
| Other comprehensive gain before reclassifications | 65.2 |
| Amounts reclassified from accumulated other comprehensive loss (a) | 3.6 |
| Net current-period other comprehensive gain | 68.8 |
| Balance, December 31, 2021 | (70.7) |
| Other comprehensive gain before reclassifications | 38.8 |
| Amounts reclassified from accumulated other comprehensive loss (a) | 0.1 |
| Net current-period other comprehensive gain | 38.9 |
| Balance, December 31, 2022 | $ (31.8) |

(a) Reclassified net unrecognized employee benefit plan amounts were included as a component of net periodic benefit cost and recorded in other income (expense) in the consolidated statements of operations—see Note 7, "Employee Benefit Liabilities," for additional information.

**9. LEASES**

The Company has non-cancelable operating leases for its corporate and district offices throughout the United States. The Company's leases have remaining lease terms of one to 11 years, some of which may include options to extend the lease up to ten years.

**9. LEASES (CONTINUED)**

Details for our operating lease assets and liabilities follow:

| | December 31, 2022 |
|---|---|
| | *(in millions)* |
| Assets | |
| Operating lease assets | $ 184.6 |
| Total lease assets | 184.6 |
| Liabilities | |
| Current portion of operating lease liabilities | 28.0 |
| Non-current operating lease liabilities | 197.9 |
| Total lease liabilities | $ 225.9 |

Leased assets obtained in exchange for operating lease obligations for the year ended December 31, 2022, were $15.1 million.

Details for lease expense and lease payments follow:

| | December 31, 2022 |
|---|---|
| | *(in millions)* |
| Lease expense | |
| Occupancy | $ 30.8 |
| Total lease expense | $ 30.8 |
| Lease payments included in the measurement of lease liabilities | |
| Operating cash flows | $ 30.3 |
| Total lease cash flows | $ 30.3 |

Rent expense for operating leases for the year ended December 31, 2021, based on accounting guidance applicable during that period, was $27.5 million, which was included in occupancy expense in the consolidated statements of operations.

Details of the weighted average remaining lease term and weighted average discount rate we used to determine the lease liability follow:

| | December 31, 2022 |
|---|---|
| Weighted average remaining lease term | 8.4 years |
| Weighted average discount rate | 1.7% |

Details for the maturity of lease liabilities as of December 31, 2022 for each of the next five years and thereafter follow:

| | *(in millions)* |
|---|---|
| Year ending December 31, | |
| 2023 | $ 30.6 |
| 2024 | 29.0 |
| 2025 | 27.3 |
| 2026 | 27.5 |
| 2027 | 26.5 |
| Remaining years | 117.2 |
| Total lease payments | 258.1 |
| Less: Imputed interest | (32.2) |
| Present value of lease liability | $ 225.9 |

**9. LEASES (CONTINUED)**

Future minimum lease payments under non-cancelable operating leases with initial or remaining terms of one year or more as of December 31, 2021, based on accounting guidance applicable during that period, follow:

| | | *(in millions)* |
|---|---|---|
| Year ending December 31, | | |
| 2022 | $ | 31.0 |
| 2023 | | 30.6 |
| 2024 | | 28.4 |
| 2025 | | 25.2 |
| 2026 | | 24.2 |
| Remaining years | | 118.3 |
| Total minimum lease payments | $ | 257.7 |

**10. DEBT**

FINRA maintains an unsecured line of credit agreement and has the option to borrow up to $100 million at the Secured Overnight Financing Rate plus 0.71448 percent (5.01448 percent at December 31, 2022). As of December 31, 2022 and 2021, no line of credit amounts were outstanding. Our latest line of credit renewal commenced on March 1, 2023 and expired on May 31, 2023.

**11. COMMITMENTS AND CONTINGENCIES**

*General Litigation*

Management is not aware of any unasserted claims or assessments that would have a material adverse effect on the Company's financial position and the results of operations. Currently, there are certain legal proceedings pending against us. While the outcome of any pending 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, 2022, there were no material estimated losses requiring disclosure related to pending legal proceedings, because we believe that any litigation contingency from these matters involves a chance of loss that is either remote or not 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, 2022.

*Indemnities*

The general partner and investment manager of the Consolidated Entity, on behalf of the Consolidated Entity, enter into certain contracts that contain a variety of indemnifications. The Consolidated Entity's maximum exposure under these arrangements is unknown. However, the Consolidated Entity has not had prior claims or losses pursuant to these contracts and expects any risk of loss to be remote.

**12. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through June 28, 2023, 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 consolidated financial statements or accompanying notes.

# FINRA Board of Governors as of June 1, 2023

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Washington, DC

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World Bank Group
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# FINRA Officers as of June 1, 2023

**Robert W. Cook**
President and Chief Executive Officer

**Marcia E. Asquith**
Executive Vice President, Board and External Relations

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Executive Vice President and Director of FINRA Dispute Resolution

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**Christopher Kelly**
Senior Vice President and Acting Head of Enforcement

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**Derek Linden**
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**Greg Ruppert**
Executive Vice President,
Member Supervision

**William St. Louis**
Executive Vice President,
National Cause and Financial
Crimes Detection Programs

**Jonathan Sokobin**
Executive Vice President and
Chief Economist

**Nathaniel Stankard**
Executive Vice President and
Chief of Staff to the CEO for
Regulatory Operations

**Rainia Washington**
Executive Vice President and
Chief Human Resources Officer

**William J. Wollman**
Executive Vice President, Head of
Office of Financial and
Operational Risk Policy

# FINRA Corporate Offices

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

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

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

15200 Omega Drive
Rockville, MD 20850
(301) 590-6500

10 Harborside Plaza
3 Second Street
Suite 900
Jersey City, NJ 07302

Brookfield Place
200 Liberty Street
New York, NY 10281
(212) 858-4000

# FINRA District Offices

**Atlanta**
303 Perimeter Center North
Suite 550
Atlanta, GA 30346
(404) 239-6100

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

**Boston**
99 High Street
Suite 900
Boston, MA 02110
(617) 532-3400

**Chicago**
55 West Monroe Street
Suite 2600
Chicago, IL 60603
(312) 899-4400
(312) 606-0742 (fax)

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

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

**Kansas City**
120 West 12th Street
Wyandotte Plaza
Suite 800
Kansas City, MO 64105
(816) 421-5700

**Long Island**
Two Jericho Plaza
Suite 307
Jericho, NY 11753
(516) 827-6100

**Los Angeles**
300 South Grand Avenue
Suite 1700
Los Angeles, CA 90071
(213) 229-2300
(213) 617-3299 (fax)

**New Jersey**
10 Harborside Plaza
3 Second Street, Suites 800 &
900
Jersey City, NJ 07302
(201) 610-0582
(732) 596-2001 (fax)

**New Orleans**
1100 Poydras Street
Energy Centre
Suite 850
New Orleans, LA 70163
(504) 522-6527

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

**Philadelphia**
1601 Market Street
Suite 2700
Philadelphia, PA 19103
(215) 665-1180
(215) 496-0434 (fax)

**Reston**
RTC West
12110 Sunset Hills Road
Suite 150
Reston, VA 20190

**San Francisco**
100 Pine Street
Suite 1800
San Francisco, CA 94111
(415) 217-1100
(301) 527-4800 (fax)

**Woodbridge**
581 Main Street, Suite 710
Woodbridge, NJ 07095
(732) 596-2000

# FINRA Dispute Resolution Regional Offices

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

**Northeast Region**
Brookfield Place
200 Liberty Street
New York, NY 10281

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

**Western Region**
300 South Grand Avenue
Suite 1700
Los Angeles, CA 90071
(213) 613-2680
(301) 527-4766 (fax)


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