TD AMERITRADE HOLDING CORP
Form 10-Q
August 07, 2018

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended June 30, 2018
OR
¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the transition period from to
Commission file number: 1-35509

TD Ameritrade Holding Corporation
(Exact name of registrant as specified in its charter)

Delaware	82-0543156
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

200 South 108th Avenue, Omaha, Nebraska, 68154
(Address of principal executive offices) (Zip Code)
(402) 331-7856
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x
As of July 31, 2018, there were 567,650,517 outstanding shares of the registrant's common stock.

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PART I – FINANCIAL INFORMATION
Item 1. – Financial Statements
REVIEW REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
The Board of Directors and Shareholders
TD Ameritrade Holding Corporation

We have reviewed the condensed consolidated balance sheet of TD Ameritrade Holding Corporation and subsidiaries (the Company) as of June 30, 2018, the related condensed consolidated statements of income and comprehensive income for the three-month and nine-month periods ended June 30, 2018 and 2017, and the condensed consolidated statements of cash flows for the nine-month periods ended June 30, 2018 and 2017. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of TD Ameritrade Holding Corporation and subsidiaries as of September 30, 2017, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year then ended (not presented herein) and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated November 17, 2017. In our opinion, the accompanying condensed consolidated balance sheet of TD Ameritrade Holding Corporation and subsidiaries as of September 30, 2017, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ ERNST & YOUNG LLP
New York, New York
August 7, 2018

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TD AMERITRADE HOLDING CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2018	September 30, 2017
	(In millions)	
ASSETS		
Cash and cash equivalents	$1,343	$ 1,472
Cash and investments segregated and on deposit for regulatory purposes	4,609	10,446
Receivable from brokers, dealers and clearing organizations	1,572	1,334
Receivable from clients, net	22,306	17,151
Receivable from affiliates	201	137
Other receivables, net	266	174
Securities owned, at fair value	195	503
Investments available-for-sale, at fair value (including $98 million and $99 million of securities pledged as collateral for repurchase agreements at June 30, 2018 and September 30, 2017, respectively)	487	746
Property and equipment at cost, net	778	752
Goodwill	4,198	4,213
Acquired intangible assets, net	1,363	1,470
Other assets	193	229
Total assets	$37,511	$ 38,627
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Payable to brokers, dealers and clearing organizations	$3,516	$ 2,504
Payable to clients	22,554	25,107
Accounts payable and other liabilities	741	815
Payable to affiliates	48	109
Other borrowings	97	97
Long-term debt	2,456	2,555
Deferred income taxes	163	193
Total liabilities	29,575	31,380
Stockholders' equity:		
Preferred stock, $0.01 par value; 100 million shares authorized, none issued	—	—
Common stock, $0.01 par value; one billion shares authorized; 670 million shares issued; June 30, 2018 – 568 million shares outstanding; September 30, 2017 – 567 million shares outstanding	7	7
Additional paid-in capital	3,395	3,369
Retained earnings	6,673	6,011
Treasury stock, common, at cost: June 30, 2018 – 102 million shares; September 30, 2017 – 103 million shares	(2,118)	(2,116)
Deferred compensation	1	1
Accumulated other comprehensive loss	(22)	(25)
Total stockholders' equity	7,936	7,247
Total liabilities and stockholders' equity	$37,511	$ 38,627

See notes to condensed consolidated financial statements.

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TD AMERITRADE HOLDING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
	(In millions, except per share amounts)			
Revenues:				
Transaction-based revenues:				
Commissions and transaction fees	$490	$335	$1,487	$1,054
Asset-based revenues:				
Bank deposit account fees	387	286	1,149	800
Net interest revenue	332	175	916	480
Investment product fees	140	112	414	309
Total asset-based revenues	859	573	2,479	1,589
Other revenues	33	23	88	50
Net revenues	1,382	931	4,054	2,693
Operating expenses:				
Employee compensation and benefits	352	234	1,228	677
Clearing and execution costs	46	38	149	111
Communications	42	34	141	98
Occupancy and equipment costs	67	44	226	133
Depreciation and amortization	37	25	106	74
Amortization of acquired intangible assets	32	19	107	57
Professional services	70	67	230	178
Advertising	63	58	218	195
Other	42	18	286	65
Total operating expenses	751	537	2,691	1,588
Operating income	631	394	1,363	1,105
Other expense:				
Interest on borrowings	28	20	72	48
Loss on sale of investments	—	—	11	—
Other	—	1	2	1
Total other expense	28	21	85	49
Pre-tax income	603	373	1,278	1,056
Provision for income taxes	152	142	259	395
Net income	$451	$231	$1,019	$661
Earnings per share — basic	$0.79	$0.44	$1.80	$1.25
Earnings per share — diluted	$0.79	$0.44	$1.79	$1.25
Weighted average shares outstanding — basic	568	528	567	528
Weighted average shares outstanding — diluted	570	530	570	530
Dividends declared per share	$0.21	$0.18	$0.63	$0.54

See notes to condensed consolidated financial statements.

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TD AMERITRADE HOLDING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
	(In millions)			
Net income	$451	$231	$1,019	$661
Other comprehensive income (loss), before tax:				
Investments available-for-sale:				
Unrealized gain (loss)	(2)	1	(8)	(8)
Reclassification adjustment for realized loss included in net income	—	—	11	—
Net change in investments available-for-sale	(2)	1	3	(8)
Cash flow hedging instruments:				
Reclassification adjustment for portion of realized loss amortized to net income	1	1	3	3
Total other comprehensive income (loss), before tax	(1)	2	6	(5)
Income tax effect	—	(1)	(3)	2
Total other comprehensive income (loss), net of tax	(1)	1	3	(3)
Comprehensive income	$450	$232	$1,022	$658

See notes to condensed consolidated financial statements.

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TD AMERITRADE HOLDING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended June 30, 2018	2017
	(In millions)	
Cash flows from operating activities:		
Net income	$1,019	$661
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	106	74
Amortization of acquired intangible assets	107	57
Deferred income taxes	(38)	(11)
Loss on sale of investments	11	—
Stock-based compensation	39	26
Provision for doubtful accounts on client and other receivables	67	5
Other, net	10	9
Changes in operating assets and liabilities:		
Cash and investments segregated and on deposit for regulatory purposes	5,837	1,401
Receivable from brokers, dealers and clearing organizations	(238)	(49)
Receivable from clients, net	(5,224)	(1,568)
Receivable from/payable to affiliates, net	(98)	(36)
Other receivables, net	(91)	23
Securities owned, at fair value	308	(76)
Other assets	(28)	(19)
Payable to brokers, dealers and clearing organizations	1,012	326
Payable to clients	(2,553)	(127)
Accounts payable and other liabilities	(159)	(32)
Net cash provided by operating activities	87	664
Cash flows from investing activities:		
Purchase of property and equipment	(166)	(141)
Proceeds from sale of property and equipment	12	—
Cash paid in business acquisition	(4)	—
Purchase of investments available-for-sale, at fair value	(392)	—
Proceeds from sale of investments available-for-sale, at fair value	643	—
Purchase of short-term investments	(1)	(1)
Proceeds from sale and maturity of short-term investments	66	1
Net cash provided by (used in) investing activities	158	(141)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	—	798
Payment of debt issuance costs	(3)	(8)
Proceeds from senior revolving credit facilities	2,900	—
Principal payments on senior revolving credit facilities	(2,900)	—
Payment of cash dividends	(357)	(285)
Proceeds from exercise of stock options: Nine months ended June 30, 2017 – 1.3 million shares	—	23
Purchase of treasury stock for income tax withholding on stock-based compensation: Nine months ended June 30, 2018 – 0.3 million shares; 2017 – 0.7 million shares	(16)	(26)
Other	2	—

Net cash provided by (used in) financing activities	(374)	502
Net increase (decrease) in cash and cash equivalents	(129)	1,025
Cash and cash equivalents at beginning of period	1,472	1,855
Cash and cash equivalents at end of period	$1,343	$2,880
Supplemental cash flow information:		
Interest paid	$88	$48
Income taxes paid	$278	$367

See notes to condensed consolidated financial statements.

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TD AMERITRADE HOLDING CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Month and Nine Month Periods Ended June 30, 2018 and 2017
(Unaudited)

1. Basis of Presentation

The condensed consolidated financial statements include the accounts of TD Ameritrade Holding Corporation (the "Parent") and its wholly-owned subsidiaries (collectively, the "Company"). Intercompany balances and transactions have been eliminated.

These financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and, in the opinion of management, reflect all adjustments, which are all of a normal recurring nature, necessary to present fairly the financial position, results of operations and cash flows for the periods presented in conformity with U.S. generally accepted accounting principles ("GAAP"). These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report filed on Form 10-K for the fiscal year ended September 30, 2017.

Recently Adopted Accounting Pronouncements

ASU 2018-05 — In March 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-05, Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118. ASU 2018-05 amends Accounting Standards Codification ("ASC") 740, Income Taxes, to provide guidance on accounting for the tax effects of the Tax Cuts and Jobs Act (the "Act") pursuant to Staff Accounting Bulletin No. 118, which allows entities to complete the accounting under ASC 740 within a one-year measurement period from the Act's enactment date. This ASU was effective upon issuance. For additional information regarding the Company's accounting for the tax effects of the Act under this guidance, see Note 7, Income Taxes.

ASU 2016-09 — In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. The guidance in ASU 2016-09 simplified several aspects of the accounting for share-based payment transactions, including: (1) recognize all excess tax benefits and tax deficiencies as income tax expense or benefit in the statement of income; (2) treat tax effects of exercised or vested awards as discrete items in the period in which they occur; (3) recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period; (4) classify excess tax benefits with other income tax cash flows as an operating activity; (5) an entity can make an accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur; (6) the threshold to qualify for equity classification will permit withholding up to the maximum statutory rates in the applicable jurisdictions; and (7) classify cash paid by an employer when directly withholding shares for tax withholding purposes as a financing activity in the statement of cash flows. The Company adopted the amended accounting guidance as of October 1, 2017, and as a result, the Company's provision for income taxes was reduced by $1 million and $5 million on its Condensed Consolidated Statement of Income for the three and nine months ended June 30, 2018, respectively, due to the inclusion of excess tax benefits applied on a prospective basis. The future effects of excess tax benefits and tax deficiencies recognized in the Company's earnings will depend on the volume of equity compensation during a particular period and on the market price of the Company's common stock at the date the equity awards either vest or are exercised. In addition, the Company elected to retrospectively adopt the amendment to present excess tax benefits on share-based compensation as an operating activity on the statement of cash flows. This resulted in an increase in cash flows from operating activities and a decrease in cash flows from financing activities of $12 million on the Company's Condensed Consolidated Statement of Cash Flows for the nine months ended June 30, 2017. For the purpose of recognizing compensation cost associated with share-based awards, the Company has elected to continue to follow its current practice of estimating forfeitures. None of the other provisions in this amended guidance had a significant impact on the Company's condensed consolidated financial statements.

Recently Issued Accounting Pronouncements

ASU 2018-02 — In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows a reclassification from accumulated other comprehensive income (loss) to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act enacted on December 22, 2017, and requires certain disclosures about stranded tax effects. ASU 2018-02 will be effective for the Company's fiscal year beginning October 1, 2019, with early adoption permitted, and should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Act is recognized. The adoption of this ASU will not have a material impact on the Company's condensed consolidated financial statements.

ASU 2016-13 — In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments. The main objective of ASU 2016-13 is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by an entity at each reporting date. To achieve

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this objective, the amendments in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to develop credit loss estimates. ASU 2016-13 will be effective for the Company's fiscal year beginning on October 1, 2020, using a modified retrospective approach. Early adoption is permitted. The Company is currently assessing the impact this ASU will have on its condensed consolidated financial statements.

ASU 2016-02 — In February 2016, the FASB issued ASU 2016-02, Leases. This ASU will supersede the guidance in ASC Topic 840, Leases. Under ASU 2016-02, for lease arrangements exceeding a 12-month term, a lessee will be required to recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. ASU 2016-02 will retain a distinction between finance and operating leases; however, the principal difference from the previous guidance is that lease assets and liabilities arising from operating leases will be recognized in the balance sheet. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee will not significantly change from current GAAP. The accounting applied by a lessor will be largely unchanged from that applied under current GAAP. ASU 2016-02 will be effective for the Company's fiscal year beginning October 1, 2019, with early adoption permitted, and will require an entity to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently assessing the impact of this ASU, but does not expect the standard to have a material impact on its net income. Upon adoption of ASU 2016-02, the Company expects to recognize right-of-use assets and lease liabilities for its operating leases, with initial measurement as defined by the ASU, in its Condensed Consolidated Balance Sheets.

ASU 2014-09 — In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, to clarify the principles of recognizing revenue from contracts with customers and to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. This ASU will supersede the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance. Entities are required to apply the following steps when recognizing revenue under ASU 2014-09: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. This ASU also requires additional disclosures related to the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. An entity may apply the amendments by using one of the following two methods: (1) retrospective application to each prior reporting period presented or (2) a modified retrospective approach, requiring the standard be applied only to the most current period presented, with the cumulative effect of initially applying the standard recognized at the date of initial application. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, with early adoption permitted. Subsequent to issuing ASU 2014-09, the FASB has issued additional standards for the purpose of clarifying certain aspects of ASU 2014-09. The subsequently issued ASUs have the same effective date and transition requirements as ASU 2014-09.

The Company plans to adopt the revenue recognition standard as of October 1, 2018 using the modified retrospective method of adoption. The guidance does not apply to revenue associated with financial instruments, such as interest revenue, which is accounted for under other GAAP. Accordingly, the Company does not expect the adoption of this standard to impact net interest revenue. While the Company has not yet identified any material changes in the timing of revenue recognition, its review is ongoing. The Company continues to evaluate the potential impacts that these revenue recognition standards may have on its condensed consolidated financial statements, including the incremental costs of obtaining contracts, gross versus net reporting, and additional disclosure requirements.

2. Business Acquisition

On September 18, 2017, the Company completed its acquisition of Scottrade Financial Services, Inc. ("Scottrade"), pursuant to an Agreement and Plan of Merger dated October 24, 2016 (the "Acquisition") among the Company, Rodger O. Riney, as Voting Trustee of the Rodger O. Riney Family Voting Trust U/A/D 12/31/2012 (the "Riney Stockholder"), and Alto Acquisition Corp., a wholly-owned subsidiary of the Company. Founded in 1980, Scottrade

provided securities brokerage and investment services to retail investors, traders and independent registered investment advisors through its online platform as well as through nearly 500 branch locations.
Immediately prior to the closing of the Acquisition, pursuant to the terms and conditions set forth in a separate Agreement and Plan of Merger, TD Bank, N.A., a wholly-owned subsidiary of The Toronto-Dominion Bank ("TD"), acquired Scottrade Bank, which was a wholly-owned subsidiary of Scottrade, from Scottrade (the "Bank Merger") for approximately $1.37 billion in cash (the "Bank Merger Consideration"). Immediately prior to the closing of the Acquisition, the Company also issued 11,074,197 shares of the Company's common stock to TD at a price of $36.12 per share, or approximately $400 million, pursuant to a subscription agreement dated October 24, 2016 between the Company and TD. Immediately following the Bank Merger, the Acquisition was completed. The aggregate consideration paid by the Company for all of the outstanding capital stock of Scottrade consisted of 27,685,493 shares of the Company's common stock and $3.07 billion in cash (the "Cash Consideration"). The Cash

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Consideration was funded with the Bank Merger Consideration paid by TD Bank, N.A. to Scottrade, the proceeds received from the Company's issuance of the 3.300% Senior Notes on April 27, 2017, cash on hand and cash proceeds from the sale of the Company's common stock to TD, as described above. At the closing of the Acquisition, 1,736,815 shares of the Company's common stock otherwise payable to the Riney Stockholder were deposited into a third-party custodian account (the “Escrow Account”) pursuant to an escrow agreement to secure certain indemnification obligations of the Riney Stockholder.

In connection with the closing of the Acquisition, the Company entered into a registration rights agreement with TD, the Riney Stockholder and the other stockholders described therein (the "Ricketts Stockholders") providing for certain customary registration rights with respect to their shares of the Company's common stock. Additionally, the Company and the Riney Stockholder entered into a stockholders agreement (the "Riney Stockholders Agreement"), which contained various provisions relating to stock ownership, voting, election of directors and other matters. On December 14, 2017, all of the Company's common stock received as consideration by the Riney Stockholder in the Acquisition, including shares held in the Escrow Account, were sold in a public offering. Prior to the public offering, the Riney Stockholder replaced the shares previously held in the Escrow Account with cash. As a result of the Riney Stockholder no longer owning any shares of the Company's common stock, the registration rights agreement was terminated solely with respect to the Riney Stockholder and the Riney Stockholders Agreement was terminated.

The Company accounted for the purchase of Scottrade using the acquisition method of accounting under GAAP and accordingly, the purchase price of the Acquisition was allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the date of acquisition. The estimated fair values of the assets acquired and liabilities assumed are considered provisional and are based on currently available information. The determination of estimated fair values requires management to make significant estimates and assumptions. The Company believes that the information available provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed; however, these provisional estimates may be adjusted upon the availability of new information regarding facts and circumstances which existed at the date of Acquisition, and such adjustments are not expected to be material to the Company's condensed consolidated financial statements. These provisional amounts consist primarily of estimates related to property acquired and liabilities assumed. The Company expects to finalize the valuation of these assets and liabilities as soon as practicable, but not later than one year from the Acquisition date. Adjustments to the initial estimates of the fair value of the property acquired and liabilities assumed are recorded as adjustments to the respective assets and liabilities, with the residual amounts allocated to goodwill. During the nine months ended June 30, 2018, the Company recorded purchase accounting adjustments, primarily attributable to post-closing adjustments related to the Bank Merger Consideration, assets acquired and liabilities assumed, resulting in a net decrease in goodwill of $15 million. Goodwill associated with the Acquisition was primarily attributable to the anticipated synergies from combining the operations of the Company and Scottrade. Approximately $1.60 billion of the goodwill associated with the Acquisition is expected to be deductible for income tax purposes.

The purchase price for Scottrade was comprised of the following (dollars in millions):

TD Ameritrade Holding Corporation common stock issued to the Riney Stockholder and the Escrow Account(1)	$1,261
Cash paid at closing(2)	3,073
Total purchase price	$4,334

(1) Represents the value of 27,685,493 shares of the Company's common stock at a price of $45.55 per share. The per share value is based on the opening market price of the Company's common stock as of September 18, 2017, the Acquisition date. As discussed above, the shares held in the Escrow Account were sold and replaced with cash.

(2) Includes $1.37 billion of Bank Merger Consideration paid by TD Bank, N.A. to Scottrade, which was used to fund a portion of the Acquisition.

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The provisional purchase price allocation for Scottrade as of June 30, 2018 is summarized as follows (dollars in millions):

Cash and cash equivalents[1]	$1,785
Cash and investments segregated and on deposit for regulatory purposes	3,535
Receivable from brokers, dealers and clearing organizations	167
Receivable from clients, net	3,136
Receivable from affiliates	29
Other receivables	54
Securities owned	37
Property and equipment	136
Goodwill	1,731
Acquired intangible assets	974
Deferred tax assets	70
Other assets	35
Total assets acquired	11,689
Payable to brokers, dealers and clearing organizations	(354)
Payable to clients	(6,248)
Accounts payable and other liabilities	(237)
Payable to affiliates	(80)
Long-term debt[2]	(436)
Total liabilities assumed	(7,355)
Total provisional purchase price allocated	$4,334

(1) Includes $1.37 billion of Bank Merger Consideration paid by TD Bank, N.A. to Scottrade, which was used to fund a portion of the Acquisition.
(2) On the date of Acquisition, amounts owed by Scottrade under its 6.125% senior notes, including a prepayment premium, and the amount owed under its 6.18% secured loan were repaid by the Company.

The results of operations for Scottrade are included in the Company's condensed consolidated financial statements from the date of Acquisition. The following unaudited pro forma financial information sets forth the results of operations of the Company as if the Acquisition had occurred on October 1, 2015, the beginning of the comparable fiscal year prior to the year of Acquisition. The unaudited pro forma results include certain adjustments for acquisition-related costs, depreciation, amortization of intangible assets, interest expense on acquisition financing, and related income tax effects, and do not reflect potential revenue enhancements, cost savings or operating synergies that the Company expects to realize after the Acquisition. The unaudited pro forma financial information is based on currently available information, is presented for informational purposes only, and is not indicative of future operations or results had the Acquisition been completed as of October 1, 2015 or any other date.

The following table summarizes the unaudited pro forma financial information for the three and nine months ended June 30, 2017 (dollars in millions):

	Three Months Ended June 30, 2017	Nine Months Ended June 30, 2017
	(unaudited)	
Pro forma net revenues	$1,178	$3,395
Pro forma net income	$265	$717
Pro forma basic earnings per share	$0.47	$1.26

Pro forma diluted earnings per share	$0.47	$1.26

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3. Cash and Cash Equivalents

The Company's cash and cash equivalents is summarized in the following table (dollars in millions):

	June 30, 2018	September 30, 2017
Broker-dealer subsidiaries	$ 840	$ 997
Corporate	256	279
Trust company subsidiary	106	79
Futures commission merchant and forex dealer member subsidiary	98	98
Investment advisory subsidiaries	43	19
Total	$ 1,343	$ 1,472

Capital requirements may limit the amount of cash available for dividend from the broker-dealer, trust company and futures commission merchant ("FCM")/forex dealer member ("FDM") subsidiaries to the Parent.

4. Cash and Investments Segregated and on Deposit for Regulatory Purposes

Cash and investments segregated and on deposit for regulatory purposes consists of the following (dollars in millions):

	June 30, 2018	September 30, 2017
Cash in demand deposit accounts	$ 1,731	$ 3,653
U.S. government agency mortgage-backed securities	1,383	1,486
U.S. government debt securities	775	4,019
Reverse repurchase agreements (collateralized by U.S. government debt securities)	500	1,004
Cash on deposit with futures commission merchants	195	209
U.S. government debt securities on deposit with futures commission merchant	25	75
Total	$ 4,609	$ 10,446

5. Goodwill

The Company has recorded goodwill for business acquisitions to the extent the purchase price of each completed acquisition exceeded the fair value of the net identifiable tangible and intangible assets of each acquired company. The following table summarizes changes in the carrying amount of goodwill for the nine months ended June 30, 2018 (dollars in millions):

Balance as of September 30, 2017	$4,213
Purchase accounting adjustments(1)	(15)
Balance as of June 30, 2018	$4,198

(1) The purchase accounting adjustments are primarily attributable to post-closing adjustments related to the Bank Merger Consideration, property acquired and liabilities assumed in the acquisition of Scottrade. The purchase price allocation for the Scottrade acquisition is provisional as of June 30, 2018. The provisional amounts consist primarily of estimates related to property acquired and liabilities assumed. The Company expects to finalize the valuation of assets and liabilities as soon as practicable, but not later than one year from the date of acquisition.

6. Exit Liabilities

As of September 18, 2017, the date of Acquisition, the Company began to incur costs in connection with actions taken to attain synergies from combining the operations of the Company and Scottrade. These costs, collectively referred to as "acquisition-related exit costs," include severance and other costs associated with consolidating facilities and administrative functions. The Company expects to incur total acquisition-related exit costs ranging from approximately $535 million to $615 million, consisting of severance pay and other employment benefits ranging from $350 million to $370 million and contract termination and other costs ranging from $185 million to $245 million. Substantially all remaining acquisition-related exit costs are expected to be incurred by the end of fiscal year 2018.

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The following tables summarize activity in the Company's exit liabilities for the three and nine month periods ended June 30, 2018, which are included in accounts payable and other liabilities on the Condensed Consolidated Balance Sheets (dollars in millions):

	Severance Pay and Other Employment Benefits	Contract Termination and Other Costs	Total
Balance, March 31, 2018	$ 113	$ 38	$151
Costs incurred and charged to expense	31 (1)	17 (2)	48
Costs paid or otherwise settled	(106)	(24)	(130)
Balance, June 30, 2018	$ 38	$ 31	$69

	Severance Pay and Other Employment Benefits	Contract Termination and Other Costs	Total
Balance, September 30, 2017	$ 138	$ —	$138
Exit liabilities assumed - post closing adjustments	—	9	9
Costs incurred and charged to expense	209 (1)	178 (2)	387
Costs paid or otherwise settled	(309)	(156)	(465)
Balance, June 30, 2018	$ 38	$ 31	$69

(1) Costs incurred for severance pay and other employment benefits are included in employee compensation and benefits on the Condensed Consolidated Statements of Income.
(2) Costs incurred for contract termination and other costs are primarily included in other operating expense and professional services on the Condensed Consolidated Statements of Income.
There were exit costs incurred which were not associated with the Scottrade acquisition; however, these costs were not material for the three and nine months ended June 30, 2018 and 2017.
The following table summarizes the cumulative amount of acquisition-related exit costs incurred by the Company related to the Scottrade acquisition as of June 30, 2018 (dollars in millions):

	Severance Pay and Other Employment Benefits	Contract Termination and Other Costs	Total
Exit liabilities assumed in business acquisition	$ 100	$ 9	$109
Employee compensation and benefits	241	—	241
Communications	—	1	1
Occupancy and equipment costs	—	6	6
Professional services	—	30	30
Other operating expense	—	138	138
Other non-operating expense	—	2	2
Total	$ 341	$ 186	$527

7. Income Taxes
The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act reduces the U.S. federal corporate income tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. As of

June 30, 2018, the Company has not completed its accounting for the tax effects of the Act. However, in certain cases, as described below, the Company has made reasonable estimates as to the impacts on its effective income tax rate, existing deferred income tax balances and unrecognized tax benefits. The estimates recorded are considered provisional and are based on currently available information. The Company believes that the information available provides a reasonable basis for estimating the impact of the Act on its financial statements. The Company may need to make adjustments to the provisional amounts if it obtains, prepares or analyzes additional information regarding facts and circumstances which existed as of the date of enactment; however, such adjustments are not expected to be material to the Company's condensed consolidated financial statements. Any adjustment to a provisional amount will be recorded

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in the provision for income taxes on the Company's Condensed Consolidated Statement of Income and treated as a discrete event in the period in which the adjustment is identified. The Company expects to finalize its accounting for the tax effects of the Act as soon as practicable, but not later than one year from the date of enactment.

The Company's effective income tax rate for the nine months ended June 30, 2018 and 2017 was 20.3% and 37.4%, respectively. The provision for income taxes for the nine months ended June 30, 2018 included an estimated net favorable adjustment of $71 million related to the remeasurement of the Company's deferred income tax balances as it pertains to the Act, a $5 million income tax benefit resulting from the change in accounting for income taxes related to equity-based compensation under ASU 2016-09, $10 million of favorable resolutions of state income tax matters and a $21 million favorable benefit resulting from selectively accelerating certain deductions, including acquisition-related exit costs, to leverage higher 2017 pre-enactment tax rates. The effective income tax rate was also impacted by a $9 million unfavorable remeasurement of uncertain tax positions related to certain federal incentives. These items had a net favorable impact on the Company's earnings for the nine months ended June 30, 2018 of approximately $0.17 per share. The provision for income taxes for the nine months ended June 30, 2017 included $7 million of net favorable resolutions of state income tax matters and $3 million of favorable tax benefits for certain federal incentives. These items had a net favorable impact on the Company's earnings for the nine months ended June 30, 2017 of approximately $0.02 per share.

The Company remeasured deferred income tax asset and liability balances as of the date of the Act's enactment based on the income tax rates at which they are expected to reverse in the future, which is estimated to be 24% to 25%. In accordance with Staff Accounting Bulletin 118, the estimated net favorable adjustment of $71 million related to the remeasurement of the Company's deferred income tax balances is considered provisional at June 30, 2018. The Company continues to analyze certain aspects of the Act and refine its calculations, which could potentially affect the measurement of these balances or give rise to new deferred income tax amounts. Deferred tax assets (liabilities) are comprised of the following for the periods indicated (dollars in millions):

	June 30, 2018	September 30, 2017
Deferred tax assets:		
Accrued and other liabilities	$ 80	$ 131
Stock-based compensation	18	28
Unrecognized loss on cash flow hedging instruments	8	15
Allowance for doubtful accounts	15	6
Intangible assets, state tax benefit	3	5
Operating loss carryforwards	—	1
Gross deferred tax assets	124	186
Less: Valuation allowance	—	(1)
Net deferred tax assets	124	185
Deferred tax liabilities:		
Acquired intangible assets	(232)	(331)
Property and equipment	(40)	(35)
Prepaid expenses	(13)	(11)
Other deferred tax liabilities	(2)	(1)
Total deferred tax liabilities	(287)	(378)
Net deferred tax liabilities	$ (163)	$ (193)

As of June 30, 2018, the Company has not accumulated and analyzed the necessary information to complete the accounting for the tax effects of the Act related to changes in taxation for international operations; thus no estimates have been recorded for the impact of such changes. Any adjustments related to international taxation will be recorded in the period in which a reasonable estimate can be determined; however, the Company does not expect these adjustments to have a material impact on the Company's condensed consolidated financial statements.

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8. Long-term Debt and Other Borrowings

Long-term debt and other borrowings consist of the following (dollars in millions):

June 30, 2018	Face Value	Unamortized Discounts and Debt Issuance Costs	Fair Value Adjustment [(1)]	Net Carrying Value
Other borrowings:				
Securities sold under agreements to repurchase	$97	$ —	$ —	$ 97
Long-term debt:				
Senior Notes:				
5.600% Notes due 2019	500	(1)	3	502
2.950% Notes due 2022	750	(4)	(24)	722
3.625% Notes due 2025	500	(3)	(13)	484
3.300% Notes due 2027	800	(9)	(43)	748
Subtotal - Long-term debt	2,550	(17)	(77)	2,456
Total long-term debt and other borrowings	$2,647	$ (17)	$ (77)	$ 2,553

September 30, 2017	Face Value	Unamortized Discounts and Debt Issuance Costs	Fair Value Adjustment [(1)]	Net Carrying Value
Other borrowings:				
Securities sold under agreements to repurchase	$97	$ —	$ —	$ 97
Long-term debt:				
Senior Notes:				
5.600% Notes due 2019	500	(1)	15	514
2.950% Notes due 2022	750	(5)	—	745
3.625% Notes due 2025	500	(3)	11	508
3.300% Notes due 2027	800	(9)	(3)	788
Subtotal - Long-term debt	2,550	(18)	23	2,555
Total long-term debt and other borrowings	$2,647	$ (18)	$ 23	$ 2,652

(1) Fair value adjustments relate to changes in the fair value of the debt while in a fair value hedging relationship. See "Fair Value Hedging" below.

Lines of Credit – TD Ameritrade Clearing, Inc. ("TDAC"), a clearing broker-dealer subsidiary of the Company, utilizes secured uncommitted lines of credit for short-term liquidity. Under the secured uncommitted lines, TDAC borrows on a demand basis from three unaffiliated banks and pledges client margin securities as collateral. Advances under the secured uncommitted lines are dependent on having acceptable collateral as determined by each secured uncommitted credit agreement. At June 30, 2018, borrowings are limited to $200 million under one of the secured uncommitted credit agreements and the terms of the other two secured uncommitted credit agreements do not specify borrowing limits. The availability of TDAC's secured uncommitted lines is subject to approval by the individual banks each time an advance is requested and may be denied. In addition, the Parent has a secured uncommitted line of credit agreement with one unaffiliated bank, which limits its borrowings up to $100 million on a demand basis. There were no borrowings outstanding under the secured uncommitted lines of credit as of June 30, 2018.

Securities Sold Under Agreements to Repurchase (repurchase agreements) – The Company's repurchase agreements generally mature between 30 and 90 days following the transaction date and are accounted for as secured borrowings. Under repurchase agreements, the Company receives cash from the counterparty and provides U.S. government debt

securities as collateral. The remaining contractual maturity of the repurchase agreements with outstanding balances as of June 30, 2018 and September 30, 2017, was less than 30 days and 90 days, respectively. The weighted average interest rate on the balances outstanding as of June 30, 2018 and September 30, 2017 was 2.15% and 1.25%, respectively. See "General Contingencies" in Note 10 for a discussion of the potential risks associated with repurchase agreements and how the Company mitigates those risks.
Fair Value Hedging – The Company is exposed to changes in the fair value of its fixed-rate Senior Notes resulting from interest rate fluctuations. To hedge this exposure, the Company has entered into fixed-for-variable interest rate swaps on each of the Senior Notes. Each fixed-for-variable interest rate swap has a notional amount and a maturity date matching the aggregate principal amount and maturity date, respectively, for each of the respective Senior Notes.

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The interest rate swaps effectively change the fixed-rate interest on the Senior Notes to variable-rate interest. Under the terms of the interest rate swap agreements, the Company receives semi-annual fixed-rate interest payments based on the same rates applicable to the Senior Notes, and makes quarterly variable-rate interest payments based on three-month LIBOR plus (a) 2.3745% for the swap on the 2019 Notes, (b) 0.9486% for the swap on the 2022 Notes, (c) 1.1022% for the swap on the 2025 Notes and (d) 1.0340% for the swaps on the 2027 Notes. As of June 30, 2018, the weighted average interest rate on the aggregate principal balance of the Senior Notes was 3.59%.
The interest rate swaps are accounted for as fair value hedges and qualify for the shortcut method of accounting. Changes in the payment of interest resulting from the interest rate swaps are recorded in interest on borrowings on the Condensed Consolidated Statements of Income. Changes in fair value of the interest rate swaps are completely offset by changes in fair value of the related notes, resulting in no effect on net income. The following table summarizes gains and losses resulting from changes in the fair value of interest rate swaps designated as fair value hedges and the hedged fixed-rate debt for the periods indicated (dollars in millions):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Gain (loss) on fair value of interest rate swaps	$(21)	$ 4	$(100)	$(49)
Gain (loss) on fair value of hedged fixed-rate debt	21	(4)	100	49
Net gain (loss) recorded in interest on borrowings	$—	$ —	$—	$—

Balance Sheet Impact of Hedging Instruments — The following table summarizes the fair value of outstanding derivatives designated as hedging instruments on the Condensed Consolidated Balance Sheets (dollars in millions):

	June 30, 2018	September 30, 2017
Pay-variable interest rate swaps designated as fair value hedges:		
Other assets	$ 3	$ 26
Accounts payable and other liabilities	$ (80)	$ (3)

The interest rate swaps are subject to counterparty credit risk. Credit risk is managed by limiting activity to approved counterparties that meet a minimum credit rating threshold, by entering into credit support agreements, or by utilizing approved central clearing counterparties registered with the Commodity Futures Trading Commission ("CFTC"). The interest rate swaps require daily collateral coverage, in the form of cash or U.S. Treasury securities, for the aggregate fair value of the interest rate swaps (including accrued interest). As of June 30, 2018 and September 30, 2017, the pay-variable interest rate swap counterparties had pledged $4 million and $40 million of collateral, respectively, to the Company in the form of cash. A liability for collateral pledged to the Company in the form of cash is recorded in accounts payable and other liabilities on the Condensed Consolidated Balance Sheets. As of June 30, 2018 and September 30, 2017, the Company had pledged $78 million and $1 million of collateral, respectively, to the pay-variable interest rate swap counterparties in the form of cash. An asset for collateral pledged to the swap counterparties in the form of cash is recorded in other receivables on the Condensed Consolidated Balance Sheets.
TD Ameritrade Holding Corporation Senior Revolving Credit Facilities – On April 21, 2017, the Parent entered into a credit agreement consisting of a senior unsecured committed revolving credit facility in the aggregate principal amount of $300 million (the "Parent Revolving Facility"). The maturity date of the Parent Revolving Facility is April 21, 2022.
The applicable interest rate under the Parent Revolving Facility is calculated as a per annum rate equal to, at the option of the Parent, (a) LIBOR plus an interest rate margin ("Parent Eurodollar loans") or (b) (i) the highest of (x) the prime rate, (y) the federal funds effective rate (or, if the federal funds effective rate is unavailable, the overnight bank funding rate) plus 0.50% or (z) the eurodollar rate assuming a one-month interest period plus 1.00%, plus (ii) an interest rate margin ("ABR loans"). The interest rate margin ranges from 0.875% to 1.50% for Parent Eurodollar loans and from 0% to 0.50% for ABR loans, determined by reference to the Company's public debt ratings. The Parent is

obligated to pay a commitment fee ranging from 0.08% to 0.20% on any unused amount of the Parent Revolving Facility, determined by reference to the Company's public debt ratings. There were no borrowings outstanding under the Parent Revolving Facility as of June 30, 2018. As of June 30, 2018, the interest rate margin would have been 1.125% for Parent Eurodollar loans and 0.125% for ABR loans, and the commitment fee was 0.125%, each determined by reference to the Company's public debt ratings.

The Parent Revolving Facility contains negative covenants that limit or restrict, subject to certain exceptions, the incurrence of liens, indebtedness of subsidiaries, mergers, consolidations, transactions with affiliates, change in nature of business and the sale of all or substantially all of the assets of the Company. The Parent is also required to maintain compliance with a maximum

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consolidated leverage ratio covenant and a minimum consolidated interest coverage ratio covenant, and the Company's broker-dealer and FCM/FDM subsidiaries are required to maintain compliance with a minimum regulatory net capital covenant.

In addition to the Parent Revolving Facility, the Parent entered into a credit agreement on February 16, 2018, consisting of a senior unsecured committed revolving credit facility in the aggregate principal amount of $500 million, with substantially the same terms as the Parent Revolving Facility. The February 16, 2018 revolving credit facility matured on May 17, 2018.

TD Ameritrade Clearing, Inc. Senior Revolving Credit Facilities – TDAC currently maintains two senior unsecured committed revolving credit facilities with an aggregate principal amount of $1.45 billion, consisting of a $600 million (the "$600 Million Revolving Facility") and an $850 million (the "$850 Million Revolving Facility") senior revolving facility (together, the "TDAC Revolving Facilities") entered into on April 21, 2017 and May17, 2018, respectively. The maturity dates of the $600 Million Revolving Facility and the $850 Million Revolving Facility are April 21, 2022 and May 16, 2019, respectively.

The applicable interest rate under each of the TDAC Revolving Facilities is calculated as a per annum rate equal to, at the option of TDAC, (a) LIBOR plus an interest rate margin ("TDAC Eurodollar loans") or (b) the federal funds effective rate plus an interest rate margin ("Federal Funds Rate loans"). The interest rate margin ranges from 0.75% to 1.25% for both TDAC Eurodollar loans and Federal Funds Rate loans, determined by reference to the Company's public debt ratings. TDAC is obligated to pay commitment fees ranging from 0.07% to 0.175% and from 0.06% to 0.125% on any unused amounts of the $600 Million Revolving Facility and $850 Million Revolving Facility, respectively, each determined by reference to the Company's public debt ratings. There were no borrowings outstanding under the TDAC Revolving Facilities as of June 30, 2018. As of June 30, 2018, the interest rate margin under the TDAC Revolving Facilities would have been 1.00% for both TDAC Eurodollar loans and Federal Funds Rate loans, determined by reference to the Company's public debt ratings. As of June 30, 2018, the commitment fees under the $600 Million Revolving Facility and the $850 Million Revolving Facility were 0.10% and 0.08%, respectively, each determined by reference to the Company's public debt ratings.

The TDAC Revolving Facilities contain negative covenants that limit or restrict, subject to certain exceptions, the incurrence of liens, indebtedness of TDAC, mergers, consolidations, change in nature of business and the sale of all or substantially all of the assets of TDAC. TDAC is also required to maintain minimum tangible net worth and is required to maintain compliance with minimum regulatory net capital requirements, which may change from time to time.

9. Capital Requirements

The Company's broker-dealer subsidiaries are subject to the SEC Uniform Net Capital Rule (Rule 15c3-1 under the Securities Exchange Act of 1934, or the "Exchange Act"), administered by the SEC and the Financial Industry Regulatory Authority ("FINRA"), which requires the maintenance of minimum net capital, as defined. Net capital and the related net capital requirement may fluctuate on a daily basis. TDAC and Scottrade, Inc., the Company's clearing broker-dealer subsidiaries, and TD Ameritrade, Inc., an introducing broker-dealer subsidiary of the Company, compute net capital under the alternative method as permitted by Rule 15c3-1. TDAC is required to maintain minimum net capital of the greater of $1.5 million, which is based on the type of business conducted by the broker-dealer, or 2% of aggregate debit balances arising from client transactions. TD Ameritrade, Inc. and Scottrade, Inc. are required to maintain minimum net capital of the greater of $250,000 or 2% of aggregate debit balances. In addition, under the alternative method, a broker-dealer may not repay any subordinated borrowings, pay cash dividends or make any unsecured advances or loans to its parent company or employees if such payment would result in net capital of less than (a) 5% of aggregate debit balances or (b) 120% of its minimum dollar requirement.

TD Ameritrade Futures & Forex LLC ("TDAFF"), the Company's FCM and FDM subsidiary registered with the CFTC, is subject to CFTC Regulations 1.17 and 5.7 under the Commodity Exchange Act, administered by the CFTC and the National Futures Association ("NFA"). As an FCM, TDAFF is required to maintain minimum adjusted net capital under CFTC Regulation 1.17 of the greater of (a) $1.0 million or (b) its futures risk-based capital requirement, equal to 8% of the total risk margin requirement for all futures positions carried by the FCM in client and nonclient accounts. As an FDM, TDAFF is also subject to the net capital requirements under CFTC Regulation 5.7, which requires TDAFF to maintain minimum adjusted net capital of the greater of (a) any amount required under CFTC Regulation 1.17 as described above or (b) $20.0 million plus 5% of all foreign exchange liabilities owed to forex clients in excess of $10.0 million. In addition, an FCM and FDM must provide notice to the CFTC if its adjusted net capital amounts to less than (a) 110% of its risk-based capital requirement under CFTC Regulation 1.17, (b) 150% of its $1.0 million minimum dollar requirement, or (c) 110% of $20.0 million plus 5% of all foreign exchange liabilities owed to forex clients in excess of $10.0 million.

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Net capital and net capital requirements for the Company's broker-dealer subsidiaries are summarized in the following tables (dollars in millions):

TD Ameritrade Clearing, Inc.

Date	Net Capital	Required Net Capital (2% of Aggregate Debit Balances)	Net Capital in Excess of Required Net Capital	Ratio of Net Capital to Aggregate Debit Balances
June 30, 2018	$2,527	$ 513	$ 2,014	9.85 %
September 30, 2017	$1,595	$ 340	$ 1,255	9.39 %

TD Ameritrade, Inc.

Date	Net Capital	Required Net Capital (Minimum Dollar Requirement)	Net Capital in Excess of Required Net Capital
June 30, 2018	$ 193	$ 0.25	$ 193
September 30, 2017	$ 155	$ 0.25	$ 155

Scottrade, Inc.

Date	Net Capital	Required Net Capital (Minimum Dollar Requirement or 2% of Aggregate Debit Balances)	Net Capital in Excess of Required Net Capital	Ratio of Net Capital to Aggregate Debit Balances
June 30, 2018 (1)	$ 46	$ 0.25	$ 45	N/A
September 30, 2017	$ 348	$ 70	$ 278	9.99 %

(1) On February 26, 2018, Scottrade, Inc. transferred substantially all of its broker-dealer business, including its clearing operations, to other subsidiaries of the Company.

Adjusted net capital and adjusted net capital requirements for the Company's FCM and FDM subsidiary are summarized in the following table (dollars in millions):

TD Ameritrade Futures & Forex LLC

Date	Adjusted Net Capital	Required Adjusted Net Capital ($20 Million Plus 5% of All Foreign Exchange Liabilities Owed to Forex Clients in Excess of	Adjusted Net Capital in Excess of Required Adjusted Net Capital

		$10 Million)	
June 30, 2018	$ 124	$ 23	$ 101
September 30, 2017	$ 77	$ 22	$ 55

The Company's non-depository trust company subsidiary, TD Ameritrade Trust Company ("TDATC"), is subject to capital requirements established by the State of Maine, which require TDATC to maintain minimum Tier 1 capital. TDATC's Tier 1 capital was $38 million and $32 million as of June 30, 2018 and September 30, 2017, respectively, which exceeded the required Tier 1 capital by $18 million and $13 million, respectively.

10. Commitments and Contingencies

Legal and Regulatory Matters

Order Routing Matters — Five putative class action complaints were filed between August and October 2014 regarding TD Ameritrade, Inc.'s routing of client orders and one putative class action was filed in December 2014 regarding Scottrade, Inc.'s routing of client orders. The cases against TD Ameritrade were filed in, or transferred to, the U.S. District Court for the District of Nebraska: Jay Zola et al. v. TD Ameritrade, Inc., et al., Case No. 8:14CV288; Tyler Verdieck v. TD Ameritrade, Inc., Case No. 8:14CV289; Bruce Lerner v. TD Ameritrade, Inc., Case No. 8:14CV325; Michael Sarbacker v. TD Ameritrade Holding Corporation, et al., Case No. 8:14CV341; and Gerald Klein v. TD Ameritrade Holding Corporation, et al., Case No. 8:14CV396.

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The case against Scottrade, Inc. was transferred to the U.S. District Court for the Eastern District of Missouri: Nicholas Lewis v. Scottrade, Inc., Case No. 4:15CV01255. The complaints in Zola, Klein and Sarbacker allege that the defendants failed to provide clients with best execution and routed orders to the market venue that paid the most for its order flow. The complaints in Verdieck, Lerner and Lewis allege that the defendant routed its clients' non-marketable limit orders to the venue paying the highest rates of maker rebates, and that clients did not receive best execution on these kinds of orders. The complaints variously include claims of breach of contract, breach of fiduciary duty, breach of the duty of best execution, fraud, negligent misrepresentation, violations of Section 10(b) and 20 of the Exchange Act and SEC Rule 10b-5, violation of Nebraska's Consumer Protection Act, violation of Nebraska's Uniform Deceptive Trade Practices Act, violation of the Missouri Merchandising Practices Act, aiding and abetting, unjust enrichment and declaratory judgment. The complaints seek various kinds of relief including damages, restitution, disgorgement, injunctive relief, equitable relief and other relief. The Company, including Scottrade, Inc., moved to dismiss the putative class action complaints. On March 23, 2016, the U.S. District Court in Nebraska entered an order dismissing all of the state law claims in the five actions against TD Ameritrade, denying the motion to dismiss the federal securities claims in the Klein case, and permitting the plaintiffs in the other four actions to amend their complaints to assert a federal securities claim. On August 29, 2016, the U.S. District Court in Missouri entered an order dismissing without prejudice all of the state law claims against Scottrade, Inc. None of the plaintiffs in the actions filed an amended complaint. The plaintiffs in the Zola, Sarbacker, Verdieck and Lewis cases filed appeals. The plaintiff in the Lerner case did not file an appeal and that case is considered closed. On January 9, 2018, the Court of Appeals, 8th Circuit, affirmed the District Court's dismissal of the Lewis case and on May 10, 2018, affirmed the District Court's dismissal of the Zola, Sarbacker and Verdieck cases. On July 12, 2018, the Magistrate Judge in the Klein case issued findings and a recommendation that plaintiffs' motion for class certification be denied. Plaintiff has filed objections to the Magistrate Judge's findings and recommendation. The Company intends to vigorously defend against these lawsuits and is unable to predict the outcome or the timing of the ultimate resolution of these lawsuits, or the potential losses, if any, that may result.

Certain regulatory authorities are conducting examinations and investigations regarding the routing of client orders. TD Ameritrade, Inc., TDAC and Scottrade, Inc. have received requests for documents and information from the regulatory authorities. TD Ameritrade, Inc., TDAC and Scottrade, Inc. are cooperating with the requests.

Lawsuit regarding Scottrade Acquisition — On April 6, 2017, an alleged stockholder of the Company filed a stockholder derivative complaint regarding the acquisition of Scottrade by the Company and the acquisition of Scottrade Bank by TD. The suit filed in the Delaware Chancery Court is captioned Vero Beach Police Officers' Retirement Fund, derivatively on behalf of nominal defendant TD Ameritrade Holding Corp. v. Larry Bettino et al., C.A. No. 2017-0264-JRS. On December 18, 2017, the plaintiff filed an amended complaint. The suit names as defendants TD and the members of the Company's board of directors. It also names the Company as a nominal defendant. The complaint alleges that the Company's acquisition of Scottrade and TD's acquisition of Scottrade Bank were unfair from the perspective of the Company because TD Bank, N.A. acquired Scottrade Bank for an allegedly low price, which in turn caused the Company to pay an allegedly high price to acquire Scottrade. The complaint claims that the Company's directors and TD, as the Company's alleged controlling stockholder, breached their fiduciary duties to the Company and its stockholders, and that TD aided and abetted the Company directors' breach of fiduciary duty and was unjustly enriched. The complaint seeks a declaration that demand on the Company's board is excused as futile and seeks corporate governance reforms, damages, interest and fees. The parties have reached an agreement in principle for the settlement of this action, subject to entry into a stipulation of settlement to be submitted to the court for approval. There can be no assurance that the proposed settlement will be finalized and approved by the court. If the proposed settlement is not finalized or approved by the court, the Company will be unable to predict the outcome or the timing of the ultimate resolution of this lawsuit, or the potential losses, if any, that may result.

Aequitas Securities Litigation — An amended putative class action complaint was filed in the U.S. District Court for the District of Oregon in Lawrence Ciuffitelli et al. v. Deloitte & Touche LLP, EisnerAmper LLP, Sidley Austin LLP, Tonkon Torp LLP, TD Ameritrade, Inc., and Integrity Bank & Trust, Case No. 3:16CV580, on May 19, 2016. A second amended putative class action complaint was filed on September 8, 2017, in which Duff & Phelps was added as a defendant. The putative class includes all persons who purchased securities of Aequitas Commercial Finance, LLC and its affiliates on or after June 9, 2010. Other groups of plaintiffs have filed five non-class action lawsuits in Oregon Circuit Court, Multnomah County, against these and other defendants: Walter Wurster, et al. v. Deloitte & Touche et al., Case No. 16CV25920 (filed Aug. 11, 2016), Kenneth Pommier, et al. v. Deloitte & Touche et al., Case No. 16CV36439 (filed Nov. 3, 2016), Charles Ramsdell, et al. v. Deloitte & Touche et al., Case No. 16CV40659 (filed Dec. 2, 2016), Charles Layton, et al. v. Deloitte & Touche et al., Case No. 17CV42915 (filed October 2, 2017) and John Cavanagh, et al. v. Deloitte & Touche et al., Case No. 18CV09052 (filed March 7, 2018). FINRA arbitrations have also been filed against TD Ameritrade, Inc. The claims in these actions include allegations that the sales of Aequitas securities were unlawful, the defendants participated and materially aided in such sales in violation of the Oregon securities laws, and material misstatements and omissions were made. While the factual allegations differ in various respects among the cases, plaintiffs' allegations include assertions that: TD Ameritrade customers purchased more than $140 million of Aequitas securities; TD Ameritrade served as custodian for Aequitas securities; recommended and referred investors to financial advisors as part of its advisor referral program for the purpose of purchasing Aequitas securities; participated in marketing the securities; recommended the securities; provided assurances to investors about the safety of the securities; and developed a market for the securities. In the

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Ciuffitelli putative class action, plaintiffs allege that more than 1,500 investors were owed more than $600 million on the Aequitas securities they purchased. On August 1, 2018, the Magistrate Judge in that case issued findings and a recommendation that defendants' motions to dismiss the pending complaint be denied with limited exceptions not applicable to the Company. Discovery has commenced. In the five non-class action lawsuits, approximately 200 named plaintiffs collectively allege a total of approximately $125 million in losses plus other damages. In the Wurster and Pommier cases, the Court, on TD Ameritrade's motion, dismissed the claims by those plaintiffs who were TD Ameritrade customers, in favor of arbitration. Discovery is ongoing. A stay in the Ramsdell and Layton cases has been lifted. On February 23, 2018, the Court in the Wurster and Pommier cases denied TD Ameritrade's motion to dismiss the claims by the plaintiffs who were not TD Ameritrade customers. On July 17, 2018, plaintiffs in the Ciuffitelli case filed a motion for preliminary approval of an $18.5 million settlement with the defendant Tonkon Torp law firm of the claims against it in all the pending cases. The Company intends to vigorously defend against this litigation. The Company is unable to predict the outcome or the timing of the ultimate resolution of this litigation, or the potential losses, if any, that may result.

Other Legal and Regulatory Matters — The Company is subject to a number of other lawsuits, arbitrations, claims and other legal proceedings in connection with its business. Some of these legal actions include claims for substantial or unspecified compensatory and/or punitive damages. In addition, in the normal course of business, the Company discusses matters with its regulators raised during regulatory examinations or otherwise subject to their inquiry. These matters could result in censures, fines, penalties or other sanctions. ASC 450, Loss Contingencies, governs the recognition and disclosure of loss contingencies, including potential losses from legal and regulatory matters. ASC 450 categorizes loss contingencies using three terms based on the likelihood of occurrence of events that result in a loss: "probable" means that "the future event or events are likely to occur;" "remote" means that "the chance of the future event or events occurring is slight;" and "reasonably possible" means that "the chance of the future event or events occurring is more than remote but less than likely." Under ASC 450, the Company accrues for losses that are considered both probable and reasonably estimable. The Company may incur losses in addition to the amounts accrued where the losses are greater than estimated by management, or for matters for which an unfavorable outcome is considered reasonably possible, but not probable.

The Company estimates that the aggregate range of reasonably possible losses in excess of amounts accrued is from $0 to $190 million as of June 30, 2018. This estimated aggregate range of reasonably possible losses is based upon currently available information for those legal and regulatory matters in which the Company is involved, taking into account the Company's best estimate of reasonably possible losses for those matters as to which an estimate can be made. For certain matters, the Company does not believe an estimate can currently be made, as some matters are in preliminary stages and some matters have no specific amounts claimed. The Company's estimate involves significant judgment, given the varying stages of the proceedings and the inherent uncertainty of predicting outcomes. The estimated range will change from time to time as the underlying matters, stages of proceedings and available information change. Actual losses may vary significantly from the current estimated range.

The Company believes, based on its current knowledge and after consultation with counsel, that the ultimate disposition of these legal and regulatory matters, individually or in the aggregate, is not likely to have a material adverse effect on the financial condition or cash flows of the Company. However, in light of the uncertainties involved in such matters, the Company is unable to predict the outcome or the timing of the ultimate resolution of these matters, or the potential losses, fines, penalties or equitable relief, if any, that may result, and it is possible that the ultimate resolution of one or more of these matters may be material to the Company's results of operations for a particular reporting period.

Income Taxes

The Company's federal and state income tax returns are subject to examination by taxing authorities. Because the application of tax laws and regulations to many types of transactions is subject to varying interpretations, amounts reported in the condensed consolidated financial statements could be significantly changed at a later date upon final determinations by taxing authorities.

General Contingencies

In the ordinary course of business, there are various contingencies that are not reflected in the condensed consolidated financial statements. These include the Company's broker-dealer and FCM/FDM subsidiaries' client activities involving the execution, settlement and financing of various client securities, options, futures and foreign exchange transactions. These activities may expose the Company to credit risk in the event the clients are unable to fulfill their contractual obligations.

The Company extends margin credit and leverage to its clients. In margin transactions, the Company extends credit to the client, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the client's account. In connection with these activities, the Company also routes client orders for execution and clears client transactions involving the sale of securities not yet purchased ("short sales"). Such margin-related transactions may expose the Company to credit risk in the event a client's assets are not sufficient to fully cover losses that the client may incur. Leverage involves securing a large potential future obligation with a lesser amount of collateral. The risks associated with margin credit and leverage increase during periods of rapid market movements, or in cases where leverage or collateral is concentrated and market movements occur. In the

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event the client fails to satisfy its obligations, the Company has the authority to liquidate certain positions in the client's account at prevailing market prices in order to fulfill the client's obligations. However, during periods of rapid market movements, clients who utilize margin credit or leverage and who have collateralized their obligations with securities may find that the securities have a rapidly depreciating value and may not be sufficient to cover their obligations in the event of liquidation. During February 2018, the public equity markets experienced a spike in volatility, including a sharp decline in the S&P 500 index. These market events had a significant impact on investments that are sensitive to volatility, including options on futures products. As a result of these market events, the Company recorded a net provision for doubtful accounts on client receivables of approximately $58 million during the second quarter of fiscal 2018, mostly related to clients holding concentrated positions in these market sensitive investments. These losses are included in other operating expenses on the Condensed Consolidated Statements of Income. The Company seeks to mitigate the risks associated with its client margin and leverage activities by requiring clients to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels throughout each trading day and, pursuant to such guidelines, requires clients to deposit additional collateral, or to reduce positions, when necessary.

The Company contracts with unaffiliated FCM, FDM and broker-dealer entities to clear and execute futures and foreign exchange transactions for its clients. This can result in concentrations of credit risk with one or more of these counterparties. This risk is partially mitigated by the counterparties' obligation to comply with rules and regulations governing FCMs, FDMs and broker-dealers in the United States. These rules generally require maintenance of net capital and segregation of client funds and securities. In addition, the Company manages this risk by requiring credit approvals for counterparties and by utilizing account funding and sweep arrangement agreements that generally specify that all client cash in excess of futures funding requirements be transferred back to the clients' securities brokerage accounts at the Company on a daily basis.

The Company loans securities temporarily to other broker-dealers in connection with its broker-dealer business. The Company receives cash as collateral for the securities loaned. Increases in securities prices may cause the market value of the securities loaned to exceed the amount of cash received as collateral. In the event the counterparty to these transactions does not return the loaned securities, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its client obligations. The Company mitigates this risk by requiring credit approvals for counterparties, by monitoring the market value of securities loaned on a daily basis and requiring additional cash as collateral when necessary, and by participating in a risk-sharing program offered through the Options Clearing Corporation ("OCC").

The Company borrows securities temporarily from other broker-dealers in connection with its broker-dealer business. The Company deposits cash as collateral for the securities borrowed. Decreases in securities prices may cause the market value of the securities borrowed to fall below the amount of cash deposited as collateral. In the event the counterparty to these transactions does not return the cash deposited, the Company may be exposed to the risk of selling the securities at prevailing market prices. The Company mitigates this risk by requiring credit approvals for counterparties, by monitoring the collateral values on a daily basis and requiring collateral to be returned by the counterparties when necessary, and by participating in a risk-sharing program offered through the OCC.

The Company transacts in reverse repurchase agreements (securities purchased under agreements to resell) in connection with its broker-dealer business. The Company's policy is to take possession or control of securities with a market value in excess of the principal amount loaned, plus accrued interest, in order to collateralize resale agreements. The Company monitors the market value of the underlying securities that collateralize the related receivable on resale agreements on a daily basis and may require additional collateral when deemed appropriate.

The Company enters into off-balance sheet arrangements with TD and unaffiliated third-party depository financial institutions (together, the "Sweep Program Counterparties") to manage its sweep program. The sweep program is offered to eligible clients whereby the client's uninvested cash is swept into FDIC-insured (up to specified limits) money market deposit accounts at the Sweep Program Counterparties. The Company earns revenue on client cash at the Sweep Program Counterparties based on the return of floating-rate and fixed-rate notional investments. The Company designates amounts and maturity dates for the fixed-rate notional investments within the sweep program portfolios, subject to certain limitations. In the event the Company instructs the Sweep Program Counterparties to withdraw a fixed-rate notional investment prior to its maturity, the Company may be required to reimburse the Sweep Program Counterparties for any losses as a result of the early withdrawal. In order to mitigate the risk of potential loss due to the early withdrawal of fixed-rate notional investments, the Company maintains a certain level of short-term floating-rate investments within the sweep program portfolios to meet client cash demands. See “Insured Deposit Account Agreement” in Note 15 for a description of the sweep arrangement between the Company and TD.

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The Company has accepted collateral in connection with client margin loans and securities borrowed. Under applicable agreements, the Company is generally permitted to repledge securities held as collateral and use them to enter into securities lending arrangements. The following table summarizes the fair values of client margin securities and stock borrowings that were available to the Company to utilize as collateral on various borrowings or for other purposes, and the amount of that collateral loaned or repledged by the Company (dollars in billions):

	June 30, 2018	September 30, 2017
Client margin securities	$ 31.0	$ 23.8
Stock borrowings	0.9	1.2
Total collateral available	$ 31.9	$ 25.0
Collateral loaned	$ 3.4	$ 2.4
Collateral repledged	6.1	4.1
Total collateral loaned or repledged	$ 9.5	$ 6.5

The Company is subject to cash deposit and collateral requirements with clearinghouses based on its clients' trading activity. The following table summarizes cash deposited with and securities pledged to clearinghouses by the Company (dollars in millions):

Assets	Balance Sheet Classification	June 30, 2018	September 30, 2017
Cash	Receivable from brokers, dealers and clearing organizations	$ 664	$ 151
U.S. government debt securities	Securities owned, at fair value	90	398
Total		$ 754	$ 549

The Company utilizes securities sold under agreements to repurchase (repurchase agreements) to finance its short-term liquidity and capital needs. Under these agreements, the Company receives cash from the counterparties and provides U.S. Treasury securities as collateral, allowing the counterparties the right to sell or repledge the collateral. These agreements expose the Company to credit losses in the event the counterparties cannot meet their obligations. The Company mitigates this risk by requiring credit approvals for counterparties, by monitoring the market value of pledged securities owned on a daily basis and requiring the counterparties to return cash or excess collateral pledged when necessary.

Guarantees

The Company is a member of and provides guarantees to securities clearinghouses and exchanges in connection with client trading activities. Under related agreements, the Company is generally required to guarantee the performance of other members. Under these agreements, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. The Company's liability under these arrangements is not quantifiable and could exceed the cash and securities it has posted to the clearinghouse as collateral. However, the potential for the Company to be required to make payments under these agreements is considered remote. Accordingly, no contingent liability is carried on the Condensed Consolidated Balance Sheets for these guarantees.

The Company clears its clients' futures transactions on an omnibus account basis through unaffiliated clearing firms. The Company also contracts with an external provider to facilitate foreign exchange trading for its clients. The Company has agreed to indemnify these unaffiliated clearing firms and the external provider for any loss that they may incur for the client transactions introduced to them by the Company.

See "Insured Deposit Account Agreement" in Note 15 for a description of the guarantees included in that agreement.

11. Fair Value Disclosures

Fair Value Measurement — Definition and Hierarchy

ASC 820-10, Fair Value Measurement, defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. ASC 820-10 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability, developed based on market data obtained

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from sources independent of the Company. Unobservable inputs reflect the Company's own assumptions about the assumptions market participants would use in pricing the asset or liability, developed based on the best information available in the circumstances.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels, as follows:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. This category includes active exchange-traded funds, money market mutual funds, mutual funds and equity securities.
- Level 2 — Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Such inputs include quoted prices in markets that are not active, quoted prices for similar assets and liabilities in active and inactive markets, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means. This category includes most debt securities, U.S. government agency mortgage-backed securities, which consist of Ginnie Mae Home Equity Conversion Mortgages, and other interest-sensitive financial instruments.
- Level 3 — Unobservable inputs for the asset or liability, where there is little, if any, observable market activity or data for the asset or liability.

The following tables present the Company's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis as of June 30, 2018 and September 30, 2017 (dollars in millions):

	As of June 30, 2018			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Cash equivalents:				
Money market mutual funds	$1,002	$—	$ —	$ 1,002
Investments segregated for regulatory purposes:				
U.S. government debt securities	—	800	—	800
U.S. government agency mortgage-backed securities	—	1,383	—	1,383
Subtotal - Investments segregated for regulatory purposes	—	2,183	—	2,183
Securities owned:				
U.S. government debt securities	—	189	—	189
Other	1	5	—	6
Subtotal - Securities owned	1	194	—	195
Investments available-for-sale:				
U.S. government debt securities	—	487	—	487
Other assets:				
Pay-variable interest rate swaps(1)	—	3	—	3
U.S. government debt securities	—	1	—	1
Auction rate securities	—	—	1	1
Subtotal - Other assets	—	4	1	5
Total assets at fair value	$1,003	$2,868	$ 1	$ 3,872
Liabilities:				
Accounts payable and other liabilities:				
Pay-variable interest rate swaps(1)	$—	$80	$ —	$ 80

(1) See "Fair Value Hedging" in Note 8 for details.

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	As of September 30, 2017			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Cash equivalents:				
Money market mutual funds	$1,081	$—	$ —	$ 1,081
Investments segregated for regulatory purposes:				
U.S. government debt securities	—	4,094	—	4,094
U.S. government agency mortgage-backed securities	—	1,486	—	1,486
Subtotal - Investments segregated for regulatory purposes	—	5,580	—	5,580
Securities owned:				
U.S. government debt securities	—	498	—	498
Other	1	4	—	5
Subtotal - Securities owned	1	502	—	503
Investments available-for-sale:				
U.S. government debt securities	—	746	—	746
Other assets:				
Pay-variable interest rate swaps(1)	—	26	—	26
U.S. government debt securities	—	1	—	1
Auction rate securities	—	—	1	1
Subtotal - Other assets	—	27	1	28
Total assets at fair value	$1,082	$6,855	$ 1	$ 7,938
Liabilities:				
Accounts payable and other liabilities:				
Pay-variable interest rate swaps(1)	$—	$3	$ —	$ 3

(1) See "Fair Value Hedging" in Note 8 for details.

There were no transfers between any levels of the fair value hierarchy during the periods covered by this report.

Valuation Techniques

In general, and where applicable, the Company uses quoted prices in active markets for identical assets or liabilities to determine fair value. This pricing methodology applies to the Company's Level 1 assets and liabilities. If quoted prices in active markets for identical assets and liabilities are not available to determine fair value, then the Company uses quoted prices for similar assets and liabilities or inputs other than the quoted prices that are observable, either directly or indirectly. This pricing methodology applies to the Company's Level 2 assets and liabilities.

Level 2 Measurements:

Debt securities — Fair values for debt securities are based on prices obtained from an independent pricing vendor. The primary inputs to the valuation include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads. The Company validates the vendor pricing by periodically comparing it to pricing from another independent pricing service. The Company has not adjusted prices obtained from the independent pricing vendor for any periods presented in the condensed consolidated financial statements because no significant pricing differences have been observed.

U.S. government agency mortgage-backed securities — Fair values for mortgage-backed securities are based on prices obtained from an independent pricing vendor. The primary inputs to the valuation include quoted prices for similar assets in active markets and in markets that are not active, a market derived prepayment curve, weighted average yields on the underlying collateral and

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spreads to benchmark indices. The Company validates the vendor pricing by periodically comparing it to pricing from two other independent sources. The Company has not adjusted prices obtained from the independent pricing vendor for any periods presented in the condensed consolidated financial statements because no significant pricing differences have been observed.

Interest rate swaps — These derivatives are valued by the Company using a valuation model provided by a third-party service that incorporates interest rate yield curves, which are observable for substantially the full term of the contract. The valuation model is widely accepted in the financial services industry and does not involve significant judgment because most of the inputs are observable in the marketplace. Credit risk is not an input to the valuation because in each case the Company or counterparty has possession of collateral, in the form of cash or U.S. Treasury securities, in amounts equal to or exceeding the fair value of the interest rate swaps. The Company validates the third-party service valuations by comparing them to valuation models provided by the swap counterparties.

Level 3 Measurements:

The Company has no material assets or liabilities classified as Level 3 of the fair value hierarchy.

Fair Value of Financial Instruments Not Recorded at Fair Value

Receivable from/payable to brokers, dealers and clearing organizations, receivable from/payable to clients, receivable from/payable to affiliates, other receivables, accounts payable and other liabilities and certain other borrowings are short-term in nature and accordingly are carried at amounts that approximate fair value. These financial instruments are recorded at or near their respective transaction prices and historically have been settled or converted to cash at approximately that value (categorized as Level 2 of the fair value hierarchy).

Cash and investments segregated and on deposit for regulatory purposes and other assets include reverse repurchase agreements (securities purchased under agreements to resell). Reverse repurchase agreements are treated as collateralized financing transactions and are carried at amounts at which the securities will subsequently be resold, plus accrued interest. The Company's reverse repurchase agreements generally have a maturity of seven days and are collateralized by securities in amounts exceeding the carrying value of the resale agreements. Accordingly, the carrying value of reverse repurchase agreements approximates fair value (categorized as Level 2 of the fair value hierarchy). Cash and investments segregated and on deposit for regulatory purposes also includes cash held in demand deposit accounts and on deposit with futures commission merchants, for which the carrying values approximate the fair value (categorized as Level 1 of the fair value hierarchy). See Note 4 for a summary of cash and investments segregated and on deposit for regulatory purposes. Other assets included reverse repurchase agreements of $65 million as of September 30, 2017.

Securities sold under agreements to repurchase (repurchase agreements) included within other borrowings — Under repurchase agreements the Company receives cash from the counterparties and provides U.S. Treasury securities as collateral. The obligations to repurchase securities sold are reflected as a liability on the Condensed Consolidated Balance Sheets. Repurchase agreements are treated as collateralized financing transactions and are carried at amounts at which the securities will subsequently be repurchased, plus accrued interest. The Company's repurchase agreements are short-term in nature and accordingly the carrying value is a reasonable estimate of fair value (categorized as Level 2 of the fair value hierarchy).

Long-term debt — As of June 30, 2018, the Company's Senior Notes had an aggregate estimated fair value, based on quoted market prices (categorized as Level 1 of the fair value hierarchy), of approximately $2.52 billion, compared to the aggregate carrying value of the Senior Notes on the Condensed Consolidated Balance Sheet of $2.46 billion. As of September 30, 2017, the Company's Senior Notes had an aggregate estimated fair value, based on quoted market prices, of approximately $2.63 billion, compared to the aggregate carrying value of the Senior Notes on the Condensed Consolidated Balance Sheet of $2.56 billion.

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12. Offsetting Assets and Liabilities

Substantially all of the Company's securities sold under agreements to repurchase (repurchase agreements), reverse repurchase agreements, securities borrowing and securities lending activity and derivative financial instruments are transacted under master agreements that may allow for net settlement in the ordinary course of business, as well as offsetting of all contracts with a given counterparty in the event of default by one of the parties. However, for financial statement purposes, the Company does not net balances related to these financial instruments.

The following tables present information about the potential effect of rights of setoff associated with the Company's recognized assets and liabilities as of June 30, 2018 and September 30, 2017 (dollars in millions):

	June 30, 2018					
				Gross Amounts Not Offset in the Condensed Consolidated Balance Sheet		
	Gross Amounts of Recognized Assets and Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheet	Net Amounts Presented in the Condensed Consolidated Balance Sheet	Financial Instruments[5]	Collateral Received or Pledged (Including Cash)[6]	Net Amount[7]
Assets:						
Investments segregated for regulatory purposes:						
Reverse repurchase agreements	$500	$ —	$ 500	$—	$ (500)	$ —
Receivable from brokers, dealers and clearing organizations:						
Deposits paid for securities borrowed[1]	877	—	877	(46)	(809)	22
Other assets:						
Pay-variable interest rate swaps	3	—	3	—	(3)	—
Total	$1,380	$ —	$ 1,380	$(46)	$ (1,312)	$ 22
Liabilities:						
Payable to brokers, dealers and clearing organizations:						
Deposits received for securities loaned[2][3]	$3,424	$ —	$ 3,424	$(59)	$ (3,025)	$ 340
Securities sold under agreements to repurchase[4]	97	—	97	2	(99)	—
Accounts payable and other liabilities:						
Pay-variable interest rate swaps	80	—	80	11	(78)	13
Total	$3,601	$ —	$ 3,601	$(46)	$ (3,202)	$ 353

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	September 30, 2017					
				Gross Amounts Not Offset in the Condensed Consolidated Balance Sheet		
	Gross Amounts of Recognized Assets and Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheet	Net Amounts Presented in the Condensed Consolidated Balance Sheet	Financial Instruments[5]	Collateral Received or Pledged (Including Cash)[6]	Net Amount[7]
Assets:						
Investments segregated for regulatory purposes:						
Reverse repurchase agreements	$1,004	$ —	$ 1,004	$—	$ (1,004)	$ —
Receivable from brokers, dealers and clearing organizations:						
Deposits paid for securities borrowed[1]	1,154	—	1,154	(110)	(1,023)	21
Other assets:						
Pay-variable interest rate swaps	26	—	26	—	(26)	—
Reverse repurchase agreements	65	—	65	—	(65)	—
Total other assets	91	—	91	—	(91)	—
Total	$2,249	$ —	$ 2,249	$(110)	$ (2,118)	$ 21
Liabilities:						
Payable to brokers, dealers and clearing organizations:						
Deposits received for securities loaned[2][3]	$2,449	$ —	$ 2,449	$(112)	$ (2,113)	$ 224
Securities sold under agreements to repurchase[4]	97	—	97	2	(99)	—
Accounts payable and other liabilities:						
Pay-variable interest rate swaps	3	—	3	—	(1)	2
Total	$2,549	$ —	$ 2,549	$(110)	$ (2,213)	$ 226

(1) Included in the gross amounts of deposits paid for securities borrowed is $505 million and $675 million as of June 30, 2018 and September 30, 2017, respectively, transacted through a risk-sharing program with the OCC, which guarantees the return of cash to the Company. See "General Contingencies" in Note 10 for a discussion of the potential risks associated with securities borrowing transactions and how the Company mitigates those risks.

(2) Included in the gross amounts of deposits received for securities loaned is $2.32 billion and $1.65 billion as of June 30, 2018 and September 30, 2017, respectively, transacted through a risk-sharing program with the OCC, which guarantees the return of securities to the Company. See "General Contingencies" in Note 10 for a discussion of the potential risks associated with securities lending transactions and how the Company mitigates those risks.

(3) Substantially all of the Company's securities lending transactions have a continuous contractual term and, upon notice by either party, may be terminated within two business days. The following table summarizes the Company's gross liability for securities lending transactions by the class of securities loaned (dollars in millions):

	June 30, 2018	September 30, 2017

Deposits received for securities loaned:		
Equity securities	$ 3,007	$ 2,109
Exchange-traded funds	265	230
Closed-end funds	101	66
Other	51	44
Total	$ 3,424	$ 2,449

(4) The collateral pledged includes available-for-sale U.S. government debt securities at fair value. All of the Company's repurchase agreements have a remaining contractual maturity of less than one year and, upon default by either party, may be terminated at the option of the non-defaulting party. See "General Contingencies" in Note 10 for a discussion of the potential risks associated with repurchase agreements and how the Company mitigates those risks.

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(5) Amounts represent recognized assets and liabilities that are subject to enforceable master agreements with rights of setoff.

(6) Represents the fair value of collateral the Company had received or pledged under enforceable master agreements, limited for table presentation purposes to the net amount of the recognized assets due from or liabilities due to each counterparty. At June 30, 2018 and September 30, 2017, the Company had received total collateral with a fair value of $1.37 billion and $2.26 billion, respectively, and pledged total collateral with a fair value of $3.24 billion and $2.32 billion, respectively.

(7) Represents the amount for which, in the case of net recognized assets, the Company had not received collateral, and in the case of net recognized liabilities, the Company had not pledged collateral.

13. Accumulated Other Comprehensive Loss

The following tables present the net change in fair value recorded for each component of other comprehensive income (loss) before and after income tax for the periods indicated (dollars in millions):

	Three Months Ended June 30,					
	2018			2017		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Investments available-for-sale:						
Unrealized gain (loss)	$(2)	$ —	$(2)	$1	$ —	$ 1
Net change in investments available-for-sale	(2)	—	(2)	1	—	1
Cash flow hedging instruments:						
Reclassification adjustment for portion of realized loss amortized to net income[1]	1	—	1	1	(1)	—
Net change in cash flow hedging instruments	1	—	1	1	(1)	—
Other comprehensive income (loss)	$(1)	$ —	$(1)	$2	$ (1)	$ 1

	Nine Months Ended June 30,					
	2018			2017		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Investments available-for-sale:						
Unrealized loss	$(8)	$ 1	$(7)	$(8)	$ 3	$(5)
Reclassification adjustment for realized loss included in net income[2]	11	(4)	7	—	—	—
Net change in investments available-for-sale	3	(3)	—	(8)	3	(5)
Cash flow hedging instruments:						
Reclassification adjustment for portion of realized loss amortized to net income[1]	3	—	3	3	(1)	2
Net change in cash flow hedging instruments	3	—	3	3	(1)	2
Other comprehensive income (loss)	$6	$ (3)	$3	$(5)	$ 2	$(3)

(1) The before tax reclassification amounts and the related tax effects are included in interest on borrowings and provision for income taxes, respectively, on the Condensed Consolidated Statements of Income.

(2) The before tax reclassification amount and related tax effect are included in loss on sale of investments and provision for income taxes, respectively, on the Condensed Consolidated Statements of Income.

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The following table presents after-tax changes in each component of accumulated other comprehensive loss for the periods indicated (dollars in millions):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Investments available-for-sale:				
Beginning balance	$(3)	$(6)	$(5)	$—
Other comprehensive income (loss) before reclassifications	(2)	1	(7)	(5)
Amounts reclassified from accumulated other comprehensive loss	—	—	7	—
Current period change	(2)	1	—	(5)
Ending balance	$(5)	$(5)	$(5)	$(5)
Cash flow hedging instruments:				
Beginning balance	$(18)	$(20)	$(20)	$(22)
Amounts reclassified from accumulated other comprehensive loss	1	—	3	2
Ending balance	$(17)	$(20)	$(17)	$(20)
Total accumulated other comprehensive loss:				
Beginning balance	$(21)	$(26)	$(25)	$(22)
Current period change	(1)	1	3	(3)
Ending balance	$(22)	$(25)	$(22)	$(25)

14. Earnings Per Share

The difference between the numerator and denominator used in the computation of basic and diluted earnings per share consists of common stock equivalent shares related to stock-based compensation for all periods presented. There were no material antidilutive awards for the three and nine months ended June 30, 2018 and 2017.

15. Related Party Transactions

Transactions with TD and its Affiliates

As a result of the Company's acquisition of TD Waterhouse Group, Inc. during fiscal 2006, TD became an affiliate of the Company. TD owned approximately 41% of the Company's common stock as of June 30, 2018. Pursuant to the stockholders agreement between TD and the Company, TD has the right to designate five of twelve members of the Company's board of directors. The Company transacts business and has extensive relationships with TD and certain of its affiliates. Transactions with TD and its affiliates are discussed and summarized below.

Insured Deposit Account Agreement

The Company is party to an insured deposit account ("IDA") agreement with TD Bank USA, N.A. ("TD Bank USA"), TD Bank, N.A. and TD. Under the IDA agreement, TD Bank USA and TD Bank, N.A. (together, the "TD Depository Institutions") make available to clients of the Company FDIC-insured (up to specified limits) money market deposit accounts as either designated sweep vehicles or as non-sweep deposit accounts. The Company provides marketing, recordkeeping and support services for the TD Depository Institutions with respect to the money market deposit accounts. In exchange for providing these services, the TD Depository Institutions pay the Company an aggregate marketing fee based on the weighted average yield earned on the client IDA assets, less the actual interest paid to clients, a servicing fee to the TD Depository Institutions and the cost of FDIC insurance premiums.

The current IDA agreement became effective as of January 1, 2013 and had an initial term expiring July 1, 2018. It is automatically renewable for successive five-year terms, provided that it may be terminated by either the Company or the TD Depository Institutions by providing written notice of non-renewal at least two years prior to the initial expiration date or the expiration date of any subsequent renewal period. As of July 1, 2016, notice of non-renewal was not provided by either party, therefore the IDA agreement was automatically renewed for an additional five-year term on July 1, 2018.

The fee earned on the IDA agreement is calculated based on two primary components: (a) the yield on fixed-rate notional investments, based on prevailing fixed rates for identical balances and maturities in the interest rate swap market (generally LIBOR-based) at the time such investments were added to the IDA portfolio (including any adjustments required to adjust the variable

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rate leg of such swaps to a one-month reset frequency and the overall swap payment frequency to monthly) and (b) the yield on floating-rate investments. As of June 30, 2018, the IDA portfolio was comprised of approximately 77% fixed-rate notional investments and 23% floating-rate investments.

The IDA agreement provides that the Company may designate amounts and maturity dates for the fixed-rate notional investments in the IDA portfolio, subject to certain limitations. For example, if the Company designates that $100 million of deposits be invested in 5-year fixed-rate investments, and on the day such investment is confirmed by the TD Depository Institutions the prevailing fixed yield for the applicable 5-year U.S. dollar LIBOR-based swaps is 1.45%, then the Company will earn a gross fixed yield of 1.45% on that portion of the portfolio (before any deductions for interest paid to clients, the servicing fee to the TD Depository Institutions and the cost of FDIC insurance premiums). In the event that (1) the federal funds effective rate is established at 0.75% or greater and (2) the rate on 5-year U.S. dollar interest rate swaps is equal to or greater than 1.50% for 20 consecutive business days, then the rate earned by the Company on new fixed-rate notional investments will be reduced by 20% of the excess of the 5-year U.S. dollar swap rate over 1.50%, up to a maximum of 0.10%.

The yield on floating-rate investments is calculated daily based on the greater of the following rates published by the Federal Reserve: (1) the interest rate paid by Federal Reserve Banks on balances held in excess of required reserve balances and contractual clearing balances under Regulation D and (2) the daily effective federal funds rate.

The interest rates paid to clients are set by the TD Depository Institutions and are not linked to any index. The servicing fee to the TD Depository Institutions under the IDA agreement is equal to 25 basis points on the aggregate average daily balance in the IDA accounts, subject to adjustment as it relates to deposits of less than or equal to $20 billion kept in floating-rate investments or in fixed-rate notional investments with a maturity of up to 24 months ("short-term fixed-rate investments"). For such floating-rate and short-term fixed-rate investments, the servicing fee is equal to the difference of the interest rate earned on the investments less the FDIC premiums paid (in basis points), divided by two. The servicing fee has a floor of 3 basis points (subject to adjustment from time to time to reflect material changes to the TD Depository Institutions' leverage costs) and a maximum of 25 basis points.

In the event the marketing fee computation results in a negative amount, the Company must pay the TD Depository Institutions the negative amount. This effectively results in the Company guaranteeing the TD Depository Institutions revenue equal to the servicing fee on the IDA agreement, plus the reimbursement of FDIC insurance premiums. The marketing fee computation under the IDA agreement is affected by many variables, including the type, duration, principal balance and yield of the fixed-rate and floating-rate investments, the prevailing interest rate environment, the amount of client deposits and the yield paid on client deposits. Because a negative marketing fee computation would arise only if there were extraordinary movements in many of these variables, the maximum potential amount of future payments the Company could be required to make under this arrangement cannot be reasonably estimated. Management believes the likelihood that the marketing fee calculation would result in a negative amount is remote. Accordingly, no contingent liability is carried on the Condensed Consolidated Balance Sheets for the IDA agreement.

In the event the Company withdraws a notional investment prior to its maturity, the Company is required to reimburse the TD Depository Institutions an amount equal to the economic replacement value of the investment, as defined in the IDA agreement. See "General Contingencies" in Note 10 for a discussion of how the Company mitigates the risk of losses due to the early withdrawal of fixed-rate notional investments.

In addition, the Company has various other services agreements and transactions with TD and its affiliates. The following tables summarize revenues and expenses resulting from transactions with TD and its affiliates for the periods indicated (dollars in millions):

Description	Statement of Income Classification	Revenues from TD and its Affiliates			
		Three months ended June 30,		Nine months ended June 30,	
		2018	2017	2018	2017

Insured Deposit Account Agreement	Bank deposit account fees	$363	$286	$1,056	$800
Mutual Fund Agreements	Investment product fees	4	4	13	11
Other	Various	4	2	11	7
Total revenues		$371	$292	$1,080	$818

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Description	Statement of Income Classification	Expenses to TD and its Affiliates			
		Three months ended June 30,		Nine months ended June 30,	
		2018	2017	2018	2017
Canadian Call Center Services Agreement[1]	Professional services	$ —	$ 3	$ —	$ 9
Referral and Strategic Alliance Agreement	Other expense	1	1	4	4
Other	Various	1	—	2	2
Total expenses		$ 2	$ 4	$ 6	$ 15

(1) The Company notified TD of its intent to not extend or renew the Canadian Call Center Services Agreement and services under this agreement ended by September 30, 2017.

The following table summarizes the classification and amount of receivables from and payables to TD and its affiliates on the Condensed Consolidated Balance Sheets resulting from related party transactions (dollars in millions):

	June 30, 2018	September 30, 2017
Assets:		
Receivable from affiliates	$ 162	$ 110
Liabilities:		
Payable to brokers, dealers and clearing organizations	$ 155	$ 37
Payable to affiliates	4	38

Payables to brokers, dealers and clearing organizations primarily relate to securities lending activity and are settled in accordance with customary contractual terms. Receivables from and payables to TD affiliates resulting from client cash sweep activity are generally settled in cash the next business day. Other receivables from and payables to affiliates of TD are generally settled in cash on a monthly basis.

As of June 30, 2018, receivables from and payables to affiliates on the Condensed Consolidated Balance Sheets included $39 million and $44 million, respectively, in connection with the acquisition of Scottrade and are expected to be settled during fiscal 2018. As of September 30, 2017, receivables from and payables to affiliates included $27 million of assets acquired and $71 million of liabilities assumed, respectively, in connection with the acquisition of Scottrade.

Item 2. - Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the Selected Financial Data and the Consolidated Financial Statements and Notes thereto included in the Company's annual report on Form 10-K for the fiscal year ended September 30, 2017, and the Condensed Consolidated Financial Statements and Notes thereto contained in this quarterly report on Form 10-Q.

This discussion contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words "may," "could," "would," "should," "believe," "expect," "anticipate," "plan," "estimate," "target," "project," "intend" and similar words or expressions. In particular, forward-looking statements contained in this discussion include our expectations regarding: the effect of client trading activity on our results of operations; the effect of changes in interest rates on our net interest spread; diluted earnings per share; net revenues; total operating expenses; organic growth rate; acquisition-related expenses; advertising expense; our effective income tax rate; and our capital and liquidity needs and our plans to finance such needs.

The Company's actual results could differ materially from those anticipated in such forward-looking statements. Important factors that may cause such differences include, but are not limited to: economic, social and political conditions and other securities industry risks; interest rate risks; liquidity risks; credit risk with clients and counterparties; risk of liability for errors in clearing functions; systemic risk; systems failures, delays and capacity constraints; network security risks; competition; reliance on external service providers; new laws and regulations affecting our business; net capital requirements; extensive regulation, regulatory uncertainties and legal matters; difficulties and delays in integrating the Scottrade Financial Services, Inc. ("Scottrade") business or fully realizing cost savings and other benefits from the acquisition; business disruption following the Scottrade acquisition; disruptions due to Scottrade integration-related uncertainty or other factors making it more difficult to maintain relationships with employees, customers, other business partners or governmental entities; the inability to achieve synergies or to implement

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integration plans and other consequences associated with other acquisitions; and the other risks and uncertainties set forth under Item 1A. – Risk Factors of the Company's annual report on Form 10-K for the fiscal year ended September 30, 2017. The forward-looking statements contained in this report speak only as of the date on which the statements were made. We undertake no obligation to publicly update or revise these statements, whether as a result of new information, future events or otherwise, except to the extent required by the federal securities laws.

The preparation of our financial statements requires us to make judgments and estimates that may have a significant impact upon our financial results. Note 1 of our Notes to Consolidated Financial Statements in our annual report on Form 10-K for the fiscal year ended September 30, 2017, contains a summary of our significant accounting policies, many of which require the use of estimates and assumptions. We believe that the following areas are particularly subject to management's judgments and estimates and could materially affect our results of operations and financial position: valuation of goodwill and acquired intangible assets; estimates of effective income tax rates, uncertain tax positions, deferred income taxes and related valuation allowances; accruals for contingent liabilities; and valuation of guarantees. These areas are discussed in further detail under the heading "Critical Accounting Policies and Estimates" in Item 7 of our annual report on Form 10-K for the fiscal year ended September 30, 2017.

The term "GAAP" refers to U.S. generally accepted accounting principles. We utilize non-GAAP calculations of earnings before interest, taxes, depreciation and amortization ("EBITDA") and liquid assets. We believe that these non-GAAP measures may be useful in evaluating the operating performance and liquidity of the business. Reference to these non-GAAP measures should not be considered as a substitute for results that are presented in a manner consistent with GAAP. These non-GAAP measures are provided to enhance investors' overall understanding of our financial performance.

Unless otherwise indicated, the terms "we," "us," "our" or "Company," or "TD Ameritrade" in this report refer to TD Ameritrade Holding Corporation and its wholly-owned subsidiaries.

Glossary of Terms

In discussing and analyzing our business, we utilize several metrics and other terms that are defined in the following Glossary of Terms. Italics indicate other defined terms that appear elsewhere in the Glossary.

Asset-based revenues — Revenues consisting of (1) bank deposit account fees, (2) net interest revenue and (3) investment product fees. The primary factors driving our asset-based revenues are average balances and average rates. Average balances consist primarily of average client bank deposit account balances, average client margin balances, average segregated cash balances, average client credit balances, average fee-based investment balances and average securities borrowing and securities lending balances. Average rates consist of the average interest rates and fees earned and paid on such balances.

Average client trades per day — Total trades divided by the number of trading days in the period. This metric is also known as daily average revenue trades ("DARTs").

Average commissions per trade — Total commissions and transaction fee revenues as reported on our consolidated financial statements, less order routing revenue, divided by total trades for the period. Commissions and transaction fee revenues primarily consist of trading commissions, order routing revenue and markups on riskless principal transactions in fixed-income securities.

Basis point — When referring to interest rates, one basis point represents one one-hundredth of one percent.

Bank deposit account fees — Revenues generated from a sweep program that is offered to eligible clients of the Company whereby clients' uninvested cash is swept to FDIC-insured (up to specified limits) money market deposit accounts at third-party financial institutions participating in the program.

Beneficiary accounts — Brokerage accounts managed by a custodian, guardian, conservator or trustee on behalf of one or more beneficiaries. Examples include accounts maintained under the Uniform Gift to Minors Act (UGMA) or Uniform Transfer to Minors Act (UTMA), guardianship, conservatorship and trust arrangements and pension or profit plan for small business accounts.

Brokerage accounts — Accounts maintained by us on behalf of clients for securities brokerage activities. The primary types of brokerage accounts are cash accounts, margin accounts, IRA accounts and beneficiary accounts. Futures accounts are sub-accounts associated with a brokerage account for clients who want to trade futures and/or options on futures. Forex accounts are sub-accounts associated with a brokerage account for clients who want to engage in foreign exchange trading.

Cash accounts — Brokerage accounts that do not have margin account approval.

Client assets — The total value of cash and securities in brokerage accounts.

Client cash and money market assets — The sum of all client cash balances, including client credit balances and client cash balances swept into bank deposit accounts or money market mutual funds.

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Client credit balances — Client cash held in brokerage accounts, excluding balances generated by client short sales on which no interest is paid. Interest paid on client credit balances is a reduction of net interest revenue. Client credit balances are included in "payable to clients" on our consolidated financial statements.
Client margin balances — The total amount of cash loaned to clients in margin accounts. Such loans are secured by client assets. Interest earned on client margin balances is a component of net interest revenue. Client margin balances are included in "receivable from clients, net" on our consolidated financial statements.
Commissions and transaction fees — Revenues earned on trading commissions, order routing revenue and markups on riskless principal transactions in fixed-income securities. Revenues earned on trading commissions includes client trades in common and preferred stock, ETFs, closed-end funds, options, futures, foreign exchange, mutual funds and fixed income securities.
Consolidated duration — The weighted average remaining years until maturity of our spread-based assets. For purposes of this calculation, floating rate balances are treated as having a one-month duration. Consolidated duration is used in analyzing our aggregate interest rate sensitivity.
Daily average revenue trades ("DARTs") — Total trades divided by the number of trading days in the period. This metric is also known as average client trades per day.
EBITDA — EBITDA (earnings before interest, taxes, depreciation and amortization) is a non-GAAP financial measure. We consider EBITDA to be an important measure of our financial performance and of our ability to generate cash flows to service debt, fund capital expenditures and fund other corporate investing and financing activities. EBITDA is used as the denominator in the consolidated leverage ratio calculation for covenant purposes under our senior revolving credit facility. EBITDA eliminates the non-cash effect of tangible asset depreciation and amortization and intangible asset amortization. EBITDA should be considered in addition to, rather than as a substitute for, GAAP pre-tax income, net income and cash flows from operating activities.
Fee-based investment balances — Client assets invested in money market mutual funds, other mutual funds and our programs such as AdvisorDirect,® Essential Portfolios and Selective Portfolios on which we earn fee revenues. Fee revenues earned on these balances are included in investment product fees on our consolidated financial statements.
Forex accounts — Sub-accounts maintained by us on behalf of clients for foreign exchange trading. Each forex account must be associated with a brokerage account. Forex accounts are not counted separately for purposes of our client account metrics.
Funded accounts — All open client accounts with a total liquidation value greater than zero.
Futures accounts — Sub-accounts maintained by us on behalf of clients for trading in futures and/or options on futures. Each futures account must be associated with a brokerage account. Futures accounts are not counted separately for purposes of our client account metrics.
Insured deposit account — We are party to an Insured Deposit Account ("IDA") agreement with TD Bank USA, N.A. ("TD Bank USA"), TD Bank, N.A. and The Toronto-Dominion Bank ("TD"). Under the IDA agreement, TD Bank USA and TD Bank, N.A. (together, the "TD Depository Institutions") make available to our clients FDIC-insured (up to specified limits) money market deposit accounts as either designated sweep vehicles or as non-sweep deposit accounts. We provide marketing, recordkeeping and support services for the TD Depository Institutions with respect to the money market deposit accounts. In exchange for providing these services, the TD Depository Institutions pay us an aggregate marketing fee based on the weighted average yield earned on the client IDA assets, less the actual interest paid to clients, a servicing fee to the TD Depository Institutions and the cost of FDIC insurance premiums. Fee revenues earned under this agreement are included in bank deposit account fees on our consolidated financial statements.
Interest-earning assets — Consist of client margin balances, segregated cash, deposits paid on securities borrowing and other cash and interest-earning investment balances.
Interest rate-sensitive assets — Consist of spread-based assets and client cash invested in money market mutual funds.
Investment product fees — Revenues earned on fee-based investment balances. Investment product fees include fees earned on money market mutual funds, other mutual funds and through our programs such as AdvisorDirect® and Selective Portfolios.

IRA accounts (Individual Retirement Arrangements) — A personal trust account for the exclusive benefit of a U.S. individual (or his or her beneficiaries) that provides tax advantages in accumulating funds to save for retirement or other qualified purposes. These accounts are subject to numerous restrictions on additions to and withdrawals from the account, as well as prohibitions against certain investments or transactions conducted within the account. We offer traditional, Roth, Savings Incentive Match Plan for Employees (SIMPLE) and Simplified Employee Pension (SEP) IRA accounts.

Liquid assets — Liquid assets is a non-GAAP financial measure. We consider liquid assets to be an important measure of our liquidity, including our ability to meet corporate cash flow needs, fund potential operational contingencies and support our business strategies. We define liquid assets as the sum of (a) corporate cash and cash equivalents, (b) corporate investments, less securities

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sold under agreements to repurchase, and (c) our regulated subsidiaries' net capital in excess of minimum operational targets established by management. Corporate cash and cash equivalents includes cash and cash equivalents from our investment advisory subsidiaries. Liquid assets represents available capital, including any capital from our regulated subsidiaries in excess of established management operational targets. We include the excess capital of our regulated subsidiaries in the calculation of liquid assets, rather than simply including regulated subsidiaries' cash and cash equivalents, because capital requirements may limit the amount of cash available for dividend from the regulated subsidiaries to the parent company. Excess capital, as defined under clause (c) above, is generally available for dividend from the regulated subsidiaries to the parent company. Liquid assets is based on more conservative measures of net capital than regulatory requirements because we generally manage to higher levels of net capital at our regulated subsidiaries than the regulatory thresholds require. Liquid assets should be considered as a supplemental measure of liquidity, rather than as a substitute for GAAP cash and cash equivalents.

Liquidation value — The net value of a client's account holdings as of the close of a regular trading session. Liquidation value includes client cash and the value of long security positions, less margin balances and the cost to buy back short security positions. It also includes the value of open futures, foreign exchange and options positions.

Margin accounts — Brokerage accounts in which clients may borrow from us to buy securities or for any other purpose, subject to regulatory and Company-imposed limitations.

Market fee-based investment balances — Client assets invested in mutual funds (except money market funds) and our programs such as AdvisorDirect,® Essential Portfolios and Selective Portfolios, on which we earn fee revenues that are largely based on a percentage of the market value of the investment. Market fee-based investment balances are a component of fee-based investment balances. Fee revenues earned on these balances are included in investment product fees on our consolidated financial statements.

Net interest margin ("NIM") — A measure of the net yield on our average spread-based assets. Net interest margin is calculated for a given period by dividing the annualized sum of bank deposit account fees and net interest revenue by average spread-based assets.

Net interest revenue — Net interest revenue is interest revenues less brokerage interest expense. Interest revenues are generated by charges to clients on margin balances maintained in margin accounts, the investment of cash from operations and segregated cash and interest earned on securities borrowing/securities lending. Brokerage interest expense consists of amounts paid or payable to clients based on credit balances maintained in brokerage accounts and interest incurred on securities borrowing/securities lending. Brokerage interest expense does not include interest on our non-brokerage borrowings.

Net new assets — Consists of total client asset inflows, less total client asset outflows, excluding activity from business combinations. Client asset inflows include interest and dividend payments and exclude changes in client assets due to market fluctuations. Net new assets are measured based on the market value of the assets as of the date of the inflows and outflows.

Net new asset growth rate (annualized) — Annualized net new assets as a percentage of client assets as of the beginning of the period.

Non-GAAP Net Income and Non-GAAP Diluted EPS — Non-GAAP net income and non-GAAP diluted earnings per share ("EPS") are non-GAAP financial measures. We define non-GAAP net income as net income adjusted to remove the after-tax effect of amortization of acquired intangible assets and acquisition-related expenses. We consider non-GAAP net income and non-GAAP diluted EPS as important measures of our financial performance because they exclude certain items that may not be indicative of our core operating results and business outlook and may be useful in evaluating the operating performance of the business and facilitating a meaningful comparison of our results in the current period to those in prior and future periods. Amortization of acquired intangible assets is excluded because management does not believe it is indicative of our underlying business performance. Acquisition-related expenses are excluded as these costs are not representative of the costs of running our on-going business. Non-GAAP net income and non-GAAP diluted EPS should be considered in addition to, rather than as a substitute for, GAAP net income and diluted EPS.

Order routing revenue — Revenues generated from revenue-sharing arrangements with market destinations (also referred to as "payment for order flow"). Order routing revenue is a component of transaction-based revenues.

Securities borrowing — We borrow securities temporarily from other broker-dealers in connection with our broker-dealer business. We deposit cash as collateral for the securities borrowed, and generally earn interest revenue on the cash deposited with the counterparty. We also incur interest expense for borrowing certain securities.

Securities lending — We loan securities temporarily to other broker-dealers in connection with our broker-dealer business. We receive cash as collateral for the securities loaned, and generally incur interest expense on the cash deposited with us. We also earn revenue for lending certain securities.

Securities sold under agreements to repurchase (repurchase agreements) — We sell securities to counterparties with an agreement to repurchase the same or substantially the same securities at a stated price plus interest on a specified date. We utilize repurchase

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agreements to finance our short-term liquidity and capital needs. Under these financing transactions, we receive cash from counterparties and provide U.S. Treasury securities as collateral.

Segregated cash — Client cash and investments segregated in compliance with Rule 15c3-3 of the Securities Exchange Act of 1934 (the Customer Protection Rule) and other regulations. Interest earned on segregated cash is a component of net interest revenue.

Spread-based assets — Client and brokerage-related asset balances, consisting of bank deposit account balances and interest-earning assets. Spread-based assets is used in the calculation of our net interest margin and our consolidated duration.

Total trades — Revenue-generating client securities trades, which are executed by our broker-dealer and FCM/FDM subsidiaries. Total trades are a significant source of our revenues. Such trades include, but are not limited to, trades in equities, options, futures, foreign exchange, mutual funds and debt instruments. Trades generate revenue from commissions, markups on riskless principal transactions in fixed income securities, transaction fees and/or order routing revenue.

Trading days — Days in which the U.S. equity markets are open for a full trading session. Reduced exchange trading sessions are treated as half trading days.

Transaction-based revenues — Revenues generated from client trade execution, consisting primarily of commissions, markups on riskless principal transactions in fixed income securities, transaction clearing fees and order routing revenue.

Results of Operations

Conditions in the U.S. equity markets significantly impact the volume of our clients' trading activity. There is a strong relationship between the volume of our clients' trading activity and our results of operations. We cannot predict future trading volumes in the U.S. equity markets. If client trading activity increases, we generally expect that it would have a positive impact on our results of operations. If client trading activity declines, we expect that it would have a negative impact on our results of operations.

Changes in average client balances, especially bank deposit account, margin, credit and fee-based investment balances, may significantly impact our results of operations. Changes in interest rates also significantly impact our results of operations. We seek to mitigate interest rate risk by aligning the average duration of our interest-earning assets with that of our interest-bearing liabilities. We cannot predict the direction of interest rates or the levels of client balances. If interest rates rise, we generally expect to earn a larger net interest spread. Conversely, a falling interest rate environment generally would result in us earning a smaller net interest spread.

Financial Performance Metrics

Net income, diluted earnings per share and EBITDA are key metrics we use in evaluating our financial performance. Net income and diluted earnings per share are GAAP financial measures and EBITDA is a non-GAAP financial measure.

We consider EBITDA to be an important measure of our financial performance and of our ability to generate cash flows to service debt, fund capital expenditures and fund other corporate investing and financing activities. EBITDA is used as the denominator in the consolidated leverage ratio calculation for covenant purposes under the TD Ameritrade Holding Corporation senior revolving credit facility. EBITDA eliminates the non-cash effect of tangible asset depreciation and amortization and intangible asset amortization. EBITDA should be considered in addition to, rather than as a substitute for, GAAP pre-tax income, net income and cash flows from operating activities.

The following table sets forth net income in dollars and as a percentage of net revenues for the periods indicated, and provides reconciliations to EBITDA (dollars in millions):

	Three months ended June 30,				Nine months ended June 30,			
	2018		2017		2018		2017	
	$	% of Net Revenues	$	% of Net Revenues	$	% of Net Revenues	$	% of Net Revenues
Net income - GAAP	$451	32.6 %	$231	24.8 %	$1,019	25.1 %	$661	24.5 %
Add:								

Depreciation and amortization	37	2.7	%	25	2.7	%	106	2.6	%	74	2.7	%
Amortization of acquired intangible assets	32	2.3	%	19	2.0	%	107	2.6	%	57	2.1	%
Interest on borrowings	28	2.0	%	20	2.1	%	72	1.8	%	48	1.8	%
Provision for income taxes	152	11.0	%	142	15.3	%	259	6.4	%	395	14.7	%
EBITDA - non-GAAP	$700	50.7	%	$437	46.9	%	$1,563	38.6	%	$1,235	45.9	%

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Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

Our net income increased 95% for the third quarter of fiscal 2018 compared to the same period in the prior year due to an increase in net revenues and a lower effective income tax rate, primarily due to the enactment of the Tax Cut and Jobs Act (the "Act") on December 22, 2017. These increases were partially offset by increases in operating expenses and interest on borrowings. Detailed analysis of net revenues and expenses is presented later in this discussion.

Our EBITDA increased 60% for the third quarter of fiscal 2018 compared to the same period in the prior year, primarily due to an increase in net revenues, partially offset by an increase in operating expenses excluding depreciation and amortization.

Our diluted earnings per share increased 80% to $0.79 for the third quarter of fiscal 2018 compared to $0.44 for the third quarter of the prior year due to higher net income, partially offset by an 8% increase in average diluted shares outstanding as a result of the issuance of our common stock in connection with the Scottrade acquisition. Based on our expectations for net revenues and expenses, each of which is expected to exceed the high end of our fiscal 2018 projections, and a lower effective income tax rate as a result of the Act, we expect diluted earnings per share to exceed our guidance range of $1.85 to $2.45 for fiscal year 2018, depending largely on the level of client trading activity, client asset growth and the level of interest rates.

Nine Months Ended June 30, 2018 Compared to Nine Months Ended June 30, 2017

Our net income increased 54% for the first nine months of fiscal 2018 compared to the same period in the prior year due to an increase in net revenues and a lower effective income tax rate, primarily due to the enactment of the Act. These increases were partially offset by increases in operating expenses and interest on borrowings, and an $11 million loss on sale of investments during the first quarter of fiscal 2018.

Our EBITDA increased 27% for the first nine months of fiscal 2018 compared to the same period in the prior year, primarily due to an increase in net revenues, partially offset by an increase in operating expenses excluding depreciation and amortization, and an $11 million loss on sale of investments during the first quarter of fiscal 2018.

Our diluted earnings per share increased 43% to $1.79 for the first nine months of fiscal 2018 compared to $1.25 for the first nine months of the prior year due to higher net income, partially offset by an 8% increase in average diluted shares outstanding as a result of the issuance of our common stock in connection with the Scottrade acquisition.

Operating Metrics

Our largest sources of revenues are asset-based revenues and transaction-based revenues. For the first nine months of fiscal 2018, asset-based revenues and transaction-based revenues accounted for 61% and 37% of our net revenues, respectively. Asset-based revenues consist of (1) bank deposit account fees, (2) net interest revenue and (3) investment product fees. The primary factors driving our asset-based revenues are average balances and average rates. Average balances consist primarily of average client bank deposit account balances, average client margin balances, average segregated cash balances, average client credit balances, average fee-based investment balances and average securities borrowing and lending balances. Average rates consist of the average interest rates and fees earned and paid on such balances. The primary factors driving our transaction-based revenues are total trades and average commissions per trade. We also consider client account and client asset metrics, although we believe they are generally of less significance to our results of operations for any particular period than our metrics for asset-based and transaction-based revenues.

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Asset-Based Revenue Metrics

We calculate the return on our bank deposit account balances and our interest-earning assets using a measure we refer to as net interest margin. Net interest margin is calculated for a given period by dividing the annualized sum of bank deposit account fees and net interest revenue by average spread-based assets. Spread-based assets consist of client and brokerage-related asset balances, including bank deposit account balances, client margin balances, segregated cash, deposits paid on securities borrowing and other cash and interest-earning investment balances. The following table sets forth net interest margin and average spread-based assets (dollars in millions):

	Three months ended June 30, 2018	Three months ended June 30, 2017	Increase/ (Decrease)	Nine months ended June 30, 2018	Nine months ended June 30, 2017	Increase/ (Decrease)
Average bank deposit account balances	$116,334	$92,271	$24,063	$117,916	$93,551	$24,365
Average interest-earning assets	30,246	25,542	4,704	31,274	24,860	6,414
Average spread-based balances	$146,580	$117,813	$28,767	$149,190	$118,411	$30,779
Bank deposit account fee revenue	$387	$286	$101	$1,149	$800	$349
Net interest revenue	332	175	157	916	480	436
Spread-based revenue	$719	$461	$258	$2,065	$1,280	$785
Avg. annualized yield—bank deposit account fees	1.32 %	1.23 %	0.09 %	1.28 %	1.13 %	0.15 %
Avg. annualized yield—interest-earning assets	4.34 %	2.71 %	1.63 %	3.86 %	2.55 %	1.31 %
Net interest margin (NIM)	1.94 %	1.55 %	0.39 %	1.83 %	1.43 %	0.40 %

The following tables set forth key metrics that we use in analyzing net interest revenue, which is a component of net interest margin (dollars in millions):

	Interest Revenue (Expense) Three months ended June 30, 2018	2017	Increase/ (Decrease)	Interest Revenue (Expense) Nine months ended June 30, 2018	2017	Increase/ (Decrease)
Segregated cash	$23	$14	$ 9	$79	$30	$ 49
Client margin balances	244	121	123	648	338	310
Securities lending/borrowing, net	55	34	21	168	99	69
Other cash and interest-earning investments	12	6	6	27	14	13
Client credit balances	(2)	—	(2)	(6)	(1)	(5)
Net interest revenue	$332	$175	$ 157	$916	$480	$ 436

	Average Balance Three months ended June 30, 2018	2017	% Change	Average Balance Nine months ended June 30, 2018	2017	% Change
Segregated cash	$5,616	$8,003	(30)%	$8,066	$8,469	(5)%
Client margin balances	20,588	12,586	64 %	19,089	12,118	58 %
Securities borrowing	779	1,067	(27)%	933	985	(5)%
Other cash and interest-earning investments	3,263	3,886	(16)%	3,186	3,288	(3)%

Interest-earning assets	$30,246	$25,542	18 %	$31,274	$24,860	26 %
Client credit balances	$19,647	$15,872	24 %	$20,847	$16,039	30 %
Securities lending	3,135	2,113	48 %	2,866	1,885	52 %
Interest-bearing liabilities	$22,782	$17,985	27 %	$23,713	$17,924	32 %

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	Avg. Annualized Yield (Cost) Three months ended June 30, 2018	2017	Net Yield Increase/ (Decrease)	Avg. Annualized Yield (Cost) Nine months ended June 30, 2018	2017	Net Yield Increase/ (Decrease)
Segregated cash	1.61 %	0.67 %	0.94 %	1.29 %	0.47 %	0.82 %
Client margin balances	4.69 %	3.81 %	0.88 %	4.47 %	3.68 %	0.79 %
Other cash and interest-earning investments	1.49 %	0.67 %	0.82 %	1.12 %	0.56 %	0.56 %
Client credit balances	(0.04)%	(0.01)%	(0.03)%	(0.03)%	(0.01)%	(0.02)%
Net interest revenue	4.34 %	2.71 %	1.63 %	3.86 %	2.55 %	1.31 %

The following tables set forth key metrics that we use in analyzing investment product fee revenues (dollars in millions):

	Fee Revenue Three months ended June 30, 2018	2017	Increase/ (Decrease)	Fee Revenue Nine months ended June 30, 2018	2017	Increase/ (Decrease)
Money market mutual fund	$4	$4	$ —	$12	$12	$ —
Market fee-based investment balances	136	108	28	402	297	105
Total investment product fees	$140	$112	$ 28	$414	$309	$ 105

	Average Balance Three months ended June 30, 2018	2017	% Change	Average Balance Nine months ended June 30, 2018	2017	% Change
Money market mutual fund	$4,133	$3,591	15 %	$3,951	$3,608	10 %
Market fee-based investment balances	252,675	186,134	36 %	242,118	176,556	37 %
Total fee-based investment balances	$256,808	$189,725	35 %	$246,069	$180,164	37 %

	Average Annualized Yield Three months ended June 30, 2018	2017	Increase/ (Decrease)	Average Annualized Yield Nine months ended June 30, 2018	2017	Increase/ (Decrease)
Money market mutual fund	0.41%	0.43%	(0.02)%	0.42%	0.42%	0.00 %
Market fee-based investment balances	0.21%	0.23%	(0.02)%	0.22%	0.22%	0.00 %
Total investment product fees	0.22%	0.23%	(0.01)%	0.22%	0.23%	(0.01)%

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Transaction-Based Revenue Metrics

The following table sets forth several key metrics regarding client trading activity, which we utilize in measuring and evaluating performance and the results of our operations:

	Three months ended June 30, 2018	2017	% Change	Nine months ended June 30, 2018	2017	% Change
Total trades (in millions)	50.15	32.15	56 %	153.08	94.63	62 %
Average client trades per day	783,665	510,358	54 %	816,445	504,700	62 %
Trading days	64.0	63.0	2 %	187.5	187.5	0 %
Average commissions per trade[(1)]	$7.40	$ 7.83	(5)%	$7.48	$ 8.55	(13)%
Order routing revenue (in millions)	$119	$ 83	43 %	$341	$ 245	39 %

(1) Effective in September 2017, the average commissions per trade metric was revised to exclude order routing revenue. Prior periods have been updated to conform to the current presentation.

Client Account and Client Asset Metrics

The following table sets forth certain metrics regarding client accounts and client assets, which we use to analyze growth and trends in our client base:

	Three months ended June 30, 2018	2017	% Change	Nine months ended June 30, 2018	2017	% Change
Funded accounts (beginning of period)	11,266,000	7,189,000	57 %	11,004,000	6,950,000	58 %
Funded accounts (end of period)	11,399,000	7,279,000	57 %	11,399,000	7,279,000	57 %
Percentage change during period	1 %	1 %		4 %	5 %	
Client assets (beginning of period, in billions)	$1,185.7	$846.7	40 %	$1,118.5	$773.8	45 %
Client assets (end of period, in billions)	$1,229.6	$882.4	39 %	$1,229.6	$882.4	39 %
Percentage change during period	4 %	4 %		10 %	14 %	
Net new assets (in billions)	$19.8	$22.0	(10)%	$68.4	$60.2	14 %
Net new assets annualized growth rate	7 %	10 %		8 %	10 %	

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Condensed Consolidated Statements of Income Data

The following table summarizes certain data from our Condensed Consolidated Statements of Income for analysis purposes (dollars in millions):

	Three months ended June 30, 2018	Three months ended June 30, 2017	% Change	Nine months ended June 30, 2018	Nine months ended June 30, 2017	% Change
Revenues:						
Transaction-based revenues:						
Commissions and transaction fees	$490	$335	46 %	$1,487	$1,054	41 %
Asset-based revenues:						
Bank deposit account fees	387	286	35 %	1,149	800	44 %
Net interest revenue	332	175	90 %	916	480	91 %
Investment product fees	140	112	25 %	414	309	34 %
Total asset-based revenues	859	573	50 %	2,479	1,589	56 %
Other revenues	33	23	43 %	88	50	76 %
Net revenues	1,382	931	48 %	4,054	2,693	51 %
Operating expenses:						
Employee compensation and benefits	352	234	50 %	1,228	677	81 %
Clearing and execution costs	46	38	21 %	149	111	34 %
Communications	42	34	24 %	141	98	44 %
Occupancy and equipment costs	67	44	52 %	226	133	70 %
Depreciation and amortization	37	25	48 %	106	74	43 %
Amortization of acquired intangible assets	32	19	68 %	107	57	88 %
Professional services	70	67	4 %	230	178	29 %
Advertising	63	58	9 %	218	195	12 %
Other	42	18	133 %	286	65	340 %
Total operating expenses	751	537	40 %	2,691	1,588	69 %
Operating income	631	394	60 %	1,363	1,105	23 %
Other expense:						
Interest on borrowings	28	20	40 %	72	48	50 %
Loss on sale of investments	—	—	N/A	11	—	N/A
Other	—	1	(100)%	2	1	100 %
Total other expense	28	21	33 %	85	49	73 %
Pre-tax income	603	373	62 %	1,278	1,056	21 %
Provision for income taxes	152	142	7 %	259	395	(34)%
Net income	$451	$231	95 %	$1,019	$661	54 %
Other information:						
Effective income tax rate	25.2 %	38.1 %		20.3 %	37.4 %	
Average debt outstanding	$2,786	$2,321	20 %	$2,783	$1,939	44 %
Effective interest rate incurred on borrowings	3.94 %	3.47 %		3.46 %	3.33 %	

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Three-Month Periods Ended June 30, 2018 and 2017

Net Revenues

Net revenues increased 48% to $1.38 billion during the third quarter of fiscal 2018. For fiscal 2018, we expect net revenues to be in excess of $5.2 billion, which is the high end of our fiscal 2018 projection.

Commissions and transaction fees increased 46% to $490 million, primarily due to the addition of approximately 3.5 million funded accounts as a result of the Scottrade acquisition on September 18, 2017, partially offset by lower average commissions per trade for the third quarter of fiscal 2018 compared to the third quarter of the prior year. Total trades increased 56%, as average client trades per day increased 54% to 783,665 for the third quarter of fiscal 2018 compared to 510,358 for the third quarter of the prior year, and there was one more trading day during the third quarter of fiscal 2018. Order routing revenue increased 43% to $119 million due to higher trading volumes. Average commissions per trade decreased to $7.40 from $7.83, primarily due to a higher percentage of equity trades, which earn somewhat lower average commissions per trade.

Asset-based revenues, which consists of bank deposit account fees, net interest revenue and investment product fees, increased 50% to $859 million, primarily due to increases in average spread-based assets, net interest margin earned on spread-based assets and average market fee-based investment balances. The growth in average spread-based and market fee-based investment balances is primarily due to the Scottrade acquisition and our success in attracting net new client assets. Net interest margin increased 39 basis points to 1.94%, primarily due to the Federal Open Market Committee increasing the target range for the federal funds rate by 25 basis points (to between 1.00% and 1.25%) during the third quarter of fiscal 2017 and by 75 basis points (to between 1.75% to 2.00%) during the first nine months of fiscal 2018. The increase in net interest margin was also due to the impact of higher average client margin balances, which earn a larger net interest spread.

Bank deposit account fees increased 35% to $387 million, primarily due to a 26% increase in average client bank deposit account balances and an increase of 9 basis points in the average yield earned on the bank deposit account assets. The growth in the average bank deposit account balances is primarily due to the Scottrade acquisition and our success in attracting net new client assets. The average yield earned on bank deposit account assets increased primarily due to floating-rate investment balances within the IDA portfolio benefiting from the federal funds rate increases during fiscal 2017 and 2018, as described above, partially offset by higher interest rates paid to clients. For more information about the IDA agreement, please see Note 15 – Related Party Transactions under Item 1, Financial Statements – Notes to Condensed Consolidated Financial Statements.

Net interest revenue increased 90% to $332 million due to a 64% increase in average client margin balances, primarily due to the Scottrade acquisition, increases in the average yields earned on client margin balances, segregated cash and other cash and interest-earning investments as a result of the federal funds rate increases during fiscal 2017 and 2018, as described above, and a $21 million increase in net interest revenue from our securities borrowing/lending program. The increase in the average yield earned on client margin balances was also impacted by increases in the average interest rates charged on client margin balances following the federal funds rate increases.

Investment product fees increased 25% to $140 million, primarily due to a 36% increase in average market fee-based investment balances. The increase in market fee-based investment balances is primarily due to the Scottrade acquisition and growth in our advised solutions products.

Other revenues increased 43% to $33 million, primarily due to increases in fees related to processing corporate securities reorganizations, proxy services and other fee revenue associated with additional accounts and transaction processing volumes resulting from the Scottrade acquisition.

Operating Expenses

Total operating expenses, which includes $46 million of acquisition-related expenses, increased 40% to $751 million during the third quarter of fiscal 2018. For the fourth quarter of fiscal 2018, we expect total operating expenses to remain consistent with the third quarter of fiscal 2018. We expect total operating expenses to be approximately $3.46 billion for fiscal 2018 and decrease to approximately $2.80 billion before growth for fiscal 2019, primarily due to expected declines in acquisition costs, intangible amortization and bad debt expense, along with additional synergies from the Scottrade acquisition. We have historically targeted 2% to 4% organic growth, but more recently we have targeted 4% to 8% growth, as increased net revenues have enabled investments in growth, capabilities and efficiencies. Total acquisition-related expenses for fiscal 2018 are expected to range from $400 million to $480 million. We have incurred $384 million of acquisition-related costs during the first nine months of fiscal 2018, and we expect to incur approximately $50 million during the fourth quarter of fiscal 2018.

Employee compensation and benefits increased 50% to $352 million, primarily due to an increase in average headcount related to the Scottrade acquisition and our strategic growth initiatives, as well as $29 million of severance costs related to the Scottrade integration. The average number of full-time equivalent employees increased to 9,156 for the third quarter of fiscal 2018 compared to 6,454 for the third quarter of the prior year.

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Clearing and execution costs increased 21% to $46 million, primarily due to increased costs associated with additional accounts and transaction processing volumes resulting from the Scottrade acquisition.
Communications expense increased 24% to $42 million, primarily due to the Scottrade acquisition, resulting in increased costs for quotes and market information associated with additional accounts and transaction processing volumes and costs for telecommunications.
Occupancy and equipment costs increased 52% to $67 million, primarily due to additional costs associated with the Scottrade business, including increased expenses related to leased facilities, software maintenance and software licensing.
Depreciation and amortization increased 48% to $37 million, primarily due to depreciation on assets recorded in the Scottrade acquisition, placing our new Southlake, Texas operations center in service during December 2017, and recent technology infrastructure upgrades.
Amortization of acquired intangible assets increased 68% to $32 million, primarily due to amortization of client relationships and trade name intangible assets recorded in the Scottrade acquisition.
Professional services increased 4% to $70 million, primarily due to higher usage of consulting and contract services related to operational and technology-related initiatives and in connection with the Scottrade integration, partially offset by lower costs associated with legal matters.
Advertising expense increased 9% to $63 million for the third quarter of fiscal 2018. We generally adjust our level of advertising spending in relation to stock market activity and other market conditions in an effort to maximize the number of new accounts while minimizing the advertising cost per new account. We expect advertising expense to increase by $10 million to $15 million during the fourth quarter of fiscal 2018 compared to the third quarter of fiscal 2018.
Other operating expenses increased 133% to $42 million, primarily due to $13 million of costs related to the Scottrade integration, mainly comprised of contract terminations and additional expenses associated with the Scottrade business.
Other Expense and Income Taxes
Interest on borrowings increased 40% to $28 million, primarily due to a 20% increase in average debt outstanding and an increase of 47 basis points in the average effective interest rate on our debt. On April 27, 2017, we issued $800 million of 3.300% Senior Notes due April 1, 2027 to finance a portion of the cash consideration paid in connection with the Scottrade acquisition.
Our effective income tax rate was 25.2% for the third quarter of fiscal 2018, compared to 38.1% for the third quarter of the prior year. The effective income tax rate for the third quarter of fiscal 2018 included an estimated net favorable adjustment of $2 million related to the remeasurement of the Company's deferred income tax balances as it pertains to the Tax Cuts and Jobs Act, a $1 million income tax benefit resulting from the change in accounting for income taxes related to equity-based compensation under ASU 2016-09 and a $9 million favorable benefit resulting from selectively accelerating certain deductions, including acquisition-related exit costs, to leverage higher 2017 pre-enactment tax rates. These items had a favorable impact on our earnings for the third quarter of fiscal 2018 of approximately $0.02 per share.
The Tax Cuts and Jobs Act was enacted on December 22, 2017, reducing the U.S. federal corporate income tax rate from 35% to 21%, requiring companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creating new taxes on certain foreign sourced earnings. For more information, see Note 7 – Income Taxes under Item 1, Financial Statements – Notes to Condensed Consolidated Financial Statements. As a result of the Act, we estimate our effective income tax rate to range between 24% to 25% for the remainder of fiscal 2018, excluding the effect of any adjustments related to remeasurement or resolution of uncertain tax positions and federal incentives. This estimate is based on a forecast of income through September 30, 2018 and is subject to change based on actual results. Additionally, we expect to experience some volatility in our quarterly and annual effective income tax rate because current accounting rules for uncertain tax positions require that any change in measurement of a tax position taken in a prior tax year be recognized as a discrete event in the period in which the change occurs. We also anticipate the potential for increased volatility in our future quarterly effective income tax rate from the accounting for income taxes related to equity-based compensation, which requires the income tax effects of exercised

or vested stock-based awards to be treated as discrete items in the period in which they occur.

Nine-Month Periods Ended June 30, 2018 and 2017

Net Revenues

Commissions and transaction fees increased 41% to $1.49 billion, primarily due to the addition of approximately 3.5 million funded accounts as a result of the Scottrade acquisition on September 18, 2017, partially offset by lower average commissions per trade for the first nine months of fiscal 2018 compared to the first nine months of the prior year. Average client trades per day increased 62% to 816,445 for the first nine months of fiscal 2018 compared to 504,700 for the first nine months of the prior year. Order routing revenue increased 39% to $341 million due to higher trading volumes. Average commissions per trade decreased to $7.48

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from $8.55, primarily due to our reduction in client pricing for online equity and option trades during the second quarter of fiscal 2017 and a higher percentage of equity trades, which earn somewhat lower average commissions per trade.

Asset-based revenues increased 56% to $2.48 billion for the first nine months of fiscal 2018, primarily due to increases in average spread-based assets, net interest margin earned on spread-based assets and average market fee-based investment balances. The growth in average spread-based and market fee-based investment balances is primarily due to the Scottrade acquisition and our success in attracting net new client assets. Net interest margin increased 40 basis points to 1.83% during the first nine months of fiscal 2018, primarily due to the Federal Open Market Committee increasing the target range for the federal funds rate by 75 basis points (to between 1.00% and 1.25%) during fiscal 2017 and by 75 basis points (to between 1.75% to 2.00%) during the first nine months of fiscal 2018. The increase in net interest margin was also due to the impact of higher average client margin balances, which earn a larger net interest spread.

Bank deposit account fees increased 44% to $1.15 billion, primarily due to a 26% increase in average client bank deposit account balances and an increase of 15 basis points in the average yield earned on the bank deposit account assets. The growth in the average bank deposit account balances is primarily due to the Scottrade acquisition and our success in attracting net new client assets. The average yield earned on bank deposit account assets increased primarily due to floating-rate investment balances within the IDA portfolio benefiting from the federal funds rate increases during fiscal 2017 and 2018, as described above, partially offset by higher interest rates paid to clients.

Net interest revenue increased 91% to $916 million due to a 58% increase in average client margin balances, primarily due to the Scottrade acquisition, increases in the average yields earned on client margin balances, segregated cash and other cash and interest-earning investments as a result of the federal funds rate increases during fiscal 2017 and 2018, as described above, and a $69 million increase in net interest revenue from our securities borrowing/lending program. The increase in the average yield earned on client margin balances was also impacted by increases in the average interest rates charged on client margin balances following the federal funds rate increases.

Investment product fees increased 34% to $414 million, primarily due to a 37% increase in average market fee-based investment balances. The increase in market fee-based investment balances is primarily due to the Scottrade acquisition and growth in our advised solutions products.

Other revenues increased 76% to $88 million, primarily due to favorable fair market value adjustments on investments held by our broker-dealer subsidiaries and increases in fees related to proxy services, processing corporate securities reorganizations and other fee revenue associated with additional accounts and transaction processing volumes resulting from the Scottrade acquisition.

Operating Expenses

Total operating expenses, which includes $384 million of acquisition-related expenses, increased 69% to $2.69 billion during the first nine months of fiscal 2018.

Employee compensation and benefits increased 81% to $1.23 billion, primarily due to $207 million of severance and other employment benefits related to the Scottrade integration and an increase in average headcount related to the Scottrade acquisition and our strategic growth initiatives. The average number of full-time equivalent employees increased to 9,912 for the first nine months of fiscal 2018 compared to 6,277 for the first nine months of the prior year.

Clearing and execution costs increased 34% to $149 million, primarily due to increased costs associated with additional accounts and transaction processing volumes resulting from the Scottrade acquisition.

Communications expense increased 44% to $141 million, primarily due to the Scottrade acquisition, resulting in increased costs for quotes and market information associated with additional accounts and transaction processing volumes and costs for telecommunications.

Occupancy and equipment costs increased 70% to $226 million, primarily due to additional costs associated with the Scottrade business, including increased expenses related to leased facilities, software maintenance and software licensing.

Depreciation and amortization increased 43% to $106 million, primarily due to depreciation on assets recorded in the Scottrade acquisition, placing our new Southlake, Texas operations center in service during December 2017, and recent technology infrastructure upgrades.
Amortization of acquired intangible assets increased 88% to $107 million, primarily due to amortization of client relationships and trade name intangible assets recorded in the Scottrade acquisition.
Professional services increased 29% to $230 million, primarily due to higher usage of consulting and contract services related to operational and technology-related initiatives and in connection with the Scottrade integration, partially offset by lower costs associated with legal matters.

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Advertising expense increased 12% to $218 million, primarily due to the Scottrade acquisition and due to increased advertising during professional and collegiate sporting events.

Other operating expenses increased 340% to $286 million, primarily due to $138 million of costs related to the Scottrade integration, mainly comprised of contract terminations, an increase in the provision for bad debt of $58 million related to market volatility during February 2018 and additional expenses associated with the Scottrade business.

Other Expense and Income Taxes

Interest on borrowings increased 50% to $72 million, primarily due to a 44% increase in average debt outstanding. On April 27, 2017, we issued $800 million of 3.300% Senior Notes due April 1, 2027 to finance a portion of the cash consideration paid in connection with the Scottrade acquisition.

Our effective income tax rate was 20.3% for the first nine months of fiscal 2018, compared to 37.4% for the first nine months of the prior year. The effective income tax rate for the first nine months of fiscal 2018 included an estimated net favorable adjustment of $71 million related to the remeasurement of the Company's deferred income tax balances as it pertains to the Act, a $5 million income tax benefit resulting from the change in accounting for income taxes related to equity-based compensation under ASU 2016-09, $10 million of favorable resolutions of state income tax matters and a $21 million favorable benefit resulting from selectively accelerating certain deductions, including acquisition-related exit costs, to leverage higher 2017 pre-enactment tax rates. The effective income tax rate was also impacted by a $9 million unfavorable remeasurement of uncertain tax positions related to certain federal incentives. These items had a net favorable impact on our earnings for the first nine months of fiscal 2018 of approximately $0.17 per share. The effective income tax rate for the first nine months of the prior year included $7 million of net favorable resolutions of state income tax matters and $3 million of favorable tax benefits for federal incentives. These items had a net favorable impact our earnings for the first nine months of the prior year of approximately $0.02 per share.

Liquidity and Capital Resources

We have established liquidity and capital policies to support the successful execution of business strategies, while ensuring ongoing and sufficient liquidity to meet operational needs and satisfy applicable regulatory requirements under both normal and stressed conditions. Our liquidity management policies are designed to mitigate the potential risk that we may be unable to meet current and future cash flow needs. Management of our liquidity is primarily comprised of (a) daily monitoring of our cash flow needs at the holding company, TD Ameritrade Holding Corporation (the "Parent"), and operating subsidiary level, and (b) performing periodic liquidity stress testing related to market and company-specific liquidity stress events in order to identify and plan for liquidity risk exposures.

We have historically financed our liquidity and capital needs primarily through the use of funds generated from subsidiary operations and from short-term borrowings. We have also issued common stock and long-term debt to finance mergers and acquisitions and for other corporate purposes. Our liquidity needs during the first nine months of fiscal 2018 were financed primarily from our subsidiaries' earnings, cash on hand and short-term borrowings. During the first nine months of fiscal 2018, we experienced increased liquidity needs at our clearing broker-dealer subsidiaries due to an increase in market volatility and in order to support regulatory and working capital requirements associated with the integration and migration of client accounts from the Scottrade platform to the Company's platform. We plan to finance both our ordinary and integration-related capital and liquidity needs during the remainder of fiscal 2018 primarily from our subsidiaries' earnings, cash on hand and short-term borrowings.

Parent Company

The Parent conducts substantially all of its business through its operating subsidiaries, principally its broker-dealer and futures commission merchant ("FCM")/forex dealer member ("FDM") subsidiaries. Dividends from our subsidiaries are an important source of liquidity for the Parent. Some of our subsidiaries are subject to requirements of the Securities and Exchange Commission ("SEC"), the Financial Industry Regulatory Authority ("FINRA"), the Commodity Futures Trading Commission ("CFTC"), the National Futures Association ("NFA") and other regulators relating to liquidity, capital standards and the use of client funds and securities, which may limit funds available for the payment of dividends to the Parent.

The Parent may make loans of cash or securities under committed and/or uncommitted lines of credit with each of its primary broker-dealer and FCM/FDM subsidiaries in order to provide liquidity. Liquidity could be used to fund increases in our subsidiaries' deposit requirements with clearinghouses, and to provide operating liquidity for client trading and investing activity in the normal course of business and during times of market volatility. Committed facilities of $255 million and uncommitted facilities of $600 million under the Parent's intercompany credit agreements were available to its primary broker-dealer and FCM/FDM subsidiaries as of June 30, 2018. For more information about these credit agreements, see "Long-term Debt and Other Borrowings — Intercompany Credit Agreements" later in this section.

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Broker-dealer and Futures Commission Merchant/Forex Dealer Member Subsidiaries

Our broker-dealer and FCM/FDM subsidiaries are subject to regulatory requirements that are intended to ensure their liquidity and general financial soundness. Under the SEC's Uniform Net Capital Rule (Rule 15c3-1 under the Securities Exchange Act of 1934, or the "Exchange Act"), our broker-dealer subsidiaries are required to maintain, at all times, at least the minimum level of net capital required under Rule 15c3-1. For our clearing broker-dealer subsidiaries, the minimum net capital level is determined by a calculation described in Rule 15c3-1 that is primarily based on the broker-dealers' "aggregate debits," which primarily consist of client margin balances at the clearing broker-dealers. Since our aggregate debits may fluctuate significantly, our minimum net capital requirements may also fluctuate significantly from period to period. The Parent may make cash capital contributions to our broker-dealer and FCM/FDM subsidiaries, if necessary, to meet minimum net capital requirements.

Each of our broker-dealer subsidiaries may not repay any subordinated borrowings, pay cash dividends or make any unsecured advances or loans to its parent company or employees if such payment would result in a net capital amount of less than (a) 5% of aggregate debit balances or (b) 120% of its minimum dollar requirement. TD Ameritrade Futures & Forex LLC ("TDAFF"), our FCM and FDM subsidiary, must provide notice to the CFTC if its adjusted net capital amounts to less than (a) 110% of its risk-based capital requirement under CFTC Regulation 1.17, (b) 150% of its $1.0 million minimum dollar requirement, or (c) 110% of $20.0 million plus 5% of all liabilities owed to forex clients in excess of $10.0 million. These broker-dealer, FCM and FDM net capital thresholds, which are specified in Rule 17a-11 under the Exchange Act and CFTC Regulations 1.12 and 5.6, are typically referred to as "early warning" net capital thresholds.

The following tables summarize our broker-dealer and FCM/FDM subsidiaries' net capital and adjusted net capital, respectively, as of June 30, 2018 (dollars in millions):

	Net Capital	Early Warning Threshold	Net Capital in Excess of Early Warning Threshold
TD Ameritrade Clearing, Inc.	$ 2,527	$ 1,283	$ 1,244
TD Ameritrade, Inc.	$ 193	$ 0.3	$ 193
Scottrade, Inc. (1)	$ 46	$ 0.3	$ 45

(1) On February 26, 2018, Scottrade, Inc. transferred substantially all of its broker-dealer business, including its clearing operations, to other subsidiaries of the Company.

	Adjusted Net Capital	Early Warning Threshold	Adjusted Net Capital in Excess of Early Warning Threshold
TD Ameritrade Futures & Forex LLC	$ 124	$ 25	$ 99

Our clearing broker-dealer subsidiaries, TD Ameritrade Clearing, Inc. ("TDAC") and Scottrade, Inc. ("STI") (prior to transferring substantially all of its broker-dealer business to other subsidiaries of the Company on February 26, 2018), engage in activities such as settling client securities transactions with clearinghouses, extending credit to clients through margin lending, securities lending and borrowing transactions and processing client cash sweep transactions to and from bank deposit accounts and money market mutual funds. These types of broker-dealer activities require active daily liquidity management.

Most of our clearing broker-dealer subsidiaries' assets are readily convertible to cash, consisting primarily of cash and investments segregated for the exclusive benefit of clients, receivables from clients and receivables from brokers, dealers and clearing organizations. Cash and investments segregated for the exclusive benefit of clients may be held in cash, reverse repurchase agreements (collateralized by U.S. Treasury securities), U.S. Treasury securities, U.S. government agency mortgage-backed securities and other qualified securities. Receivables from clients consist of margin loans, which are demand loan obligations secured by readily marketable securities. Receivables from brokers, dealers and clearing organizations primarily arise from current open transactions, which usually settle or can be settled within a few business days.

Our clearing broker-dealer subsidiaries are subject to cash deposit and collateral requirements with clearinghouses such as the Depository Trust & Clearing Corporation ("DTCC") and the OCC, which may fluctuate significantly from time to time based on the nature and size of our clients' trading activity.

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The following table sets forth our clearing broker-dealer subsidiaries' cash and investments deposited with clearing organizations for the clearing of client equity and option trades (dollars in millions):

	June 30, 2018	September 30, 2017
TD Ameritrade Clearing, Inc.	$ 745	$ 476
Scottrade, Inc.	$ 9	$ 73

Liquidity needs for our clearing broker-dealer subsidiaries relating to client trading and margin borrowing are met primarily through cash balances in client brokerage accounts and through lending and pledging of client margin securities. Cash balances in client brokerage accounts not used for client trading and margin borrowing activity are not generally available for other liquidity purposes and must be segregated for the exclusive benefit of clients under Rule 15c3-3 of the Exchange Act.

Cash balances in client brokerage accounts are summarized in the following table (dollars in millions):

	June 30, 2018	September 30, 2017
TD Ameritrade Clearing, Inc.	$22,121	$ 18,501
Scottrade, Inc.	$—	$ 6,193

Cash and investments segregated in special reserve bank accounts for the exclusive benefit of clients under Rule 15c3-3 are summarized in the following table (dollars in millions):

	June 30, 2018	September 30, 2017
TD Ameritrade Clearing, Inc.	$ 4,265	$ 6,447
Scottrade, Inc.	$ 10	$ 3,658

For general liquidity needs, TDAC currently maintains two senior unsecured committed revolving credit facilities with an aggregate principal amount of $1.45 billion. TDAC also utilizes secured uncommitted lines of credit for short-term liquidity needs. These facilities are described under "Long-term Debt and Other Borrowings" later in this section.

In addition, we have established intercompany credit agreements under which the broker-dealer and FCM/FDM subsidiaries may borrow from the Parent. The Parent's intercompany credit agreements with TDAC provides for committed revolving loan facilities of $400 million and an uncommitted revolving loan facility of $300 million. The intercompany credit agreements are described under "Long-term Debt and Other Borrowings – Intercompany Credit Agreements" later in this section.

Liquid Assets

Liquid assets is a non-GAAP financial measure. We include the excess capital of our regulated subsidiaries in the calculation of liquid assets, rather than simply including the regulated subsidiaries' cash and cash equivalents, because capital requirements may limit the amount of cash available for dividend from the regulated subsidiaries to the parent company. Excess capital, as defined below, is generally available for dividend from the regulated subsidiaries to the parent company. Liquid assets should be considered as a supplemental measure of liquidity, rather than as a substitute for GAAP cash and cash equivalents.

We define liquid assets as the sum of (a) corporate cash and cash equivalents, (b) corporate investments, less securities sold under agreements to repurchase, and (c) our regulated subsidiaries' net capital in excess of minimum operational targets established by management. Corporate cash and cash equivalents includes cash and cash equivalents from our investment advisory subsidiaries. Liquid assets is based on more conservative measures of net capital than regulatory requirements because we generally manage to higher levels of net capital at our regulated subsidiaries than the regulatory thresholds require. In June 2018, the presentation of the liquid assets metric was revised in order to provide a consolidated view of our liquidity, which management may utilize, as necessary, to meet corporate cash flow needs, fund potential operational contingencies and support our business strategies. The prior period, which provided a view of our liquidity net of operational contingencies and other obligations, has been updated to conform to the current presentation.

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The following table sets forth a reconciliation of cash and cash equivalents, which is the most directly comparable GAAP measure, to liquid assets (dollars in millions):

	June 30, 2018	Sept. 30, 2017	Change
Cash and cash equivalents - GAAP	$1,343	$1,472	$(129)
Less: Non-corporate cash and cash equivalents	(1,044)	(1,174)	130
Corporate cash and cash equivalents	299	298	1
Corporate investments	388	714	(326)
Excess regulatory net capital over management targets	166	46	120
Liquid assets - non-GAAP	$853	$1,058	$(205)

The changes in liquid assets are summarized as follows (dollars in millions):

Liquid assets as of September 30, 2017	$1,058
Plus: EBITDA(1)	1,563
Change in net capital related to daily futures client cash sweep	17
Proceeds from sale of property and equipment	12
Less: Payment of cash dividends	(357)
Corporate capital contribution to regulated subsidiary, not included in excess regulatory net capital over management targets	(300)
Other changes in working capital and regulatory net capital	(300)
Income taxes paid	(278)
Net increase in borrowings under intercompany credit agreements	(175)
Purchase of property and equipment	(166)
Net increase in cash collateral pledged to interest rate swap counterparties	(113)
Interest paid	(88)
Purchase of treasury stock for income tax withholding on stock-based compensation	(16)
Cash paid in business acquisition	(4)
Liquid assets as of June 30, 2018	$853

(1) See "Financial Performance Metrics" earlier in this section for a description of EBITDA.

Long-term Debt and Other Borrowings

The following is a summary of our long-term debt and other borrowings. For additional details, see Note 8 – Long-term Debt and Other Borrowings under Item 1, Financial Statements – Notes to Condensed Consolidated Financial Statements.

Senior Notes – Our unsecured, fixed-rate Senior Notes were each sold through a public offering and pay interest semi-annually in arrears. Key information about the Senior Notes outstanding is summarized in the following table (dollars in millions):

Description	Date Issued	Maturity Date	Aggregate Principal	Interest Rate
2019 Notes	November 25, 2009	December 1, 2019	$500	5.600%
2022 Notes	March 4, 2015	April 1, 2022	$750	2.950%
2025 Notes	October 17, 2014	April 1, 2025	$500	3.625%
2027 Notes	April 27, 2017	April 1, 2027	$800	3.300%

Fair Value Hedging – We are exposed to changes in the fair value of our fixed-rate Senior Notes resulting from interest rate fluctuations. To hedge this exposure, we entered into fixed-for-variable interest rate swaps on each of the Senior Notes. Each fixed-for-variable interest rate swap has a notional amount and a maturity date matching the aggregate principal amount and maturity date, respectively, for each of the respective Senior Notes.

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The interest rate swaps effectively change the fixed-rate interest on the Senior Notes to variable-rate interest. Under the terms of the interest rate swap agreements, we receive semi-annual fixed-rate interest payments based on the same rates applicable to the Senior Notes, and make quarterly variable-rate interest payments based on three-month LIBOR plus (a) 2.3745% for the swap on the 2019 Notes, (b) 0.9486% for the swap on the 2022 Notes, (c) 1.1022% for the swap on the 2025 Notes and (d) 1.0340% for the swap on the 2027 Notes. As of June 30, 2018, the weighted average effective interest rate on the aggregate principal balance of the Senior Notes was 3.59%.

Lines of Credit – TDAC utilizes secured uncommitted lines of credit for short-term liquidity. Under the secured uncommitted lines, TDAC borrows on a demand basis from three unaffiliated banks and pledges client margin securities as collateral. Advances under the secured uncommitted lines are dependent on having appropriate collateral as determined by each secured uncommitted credit agreement. At June 30, 2018, borrowings are limited to $200 million under one of the secured uncommitted credit agreements and the terms of the other two secured uncommitted credit agreements do not specify borrowing limits. The availability of TDAC's secured uncommitted lines is subject to approval by the individual banks each time an advance is requested and may be denied. In addition, the Parent has a secured uncommitted line of credit agreement with one unaffiliated bank, which limits its borrowings up to $100 million on a demand basis. There were no borrowings outstanding under the secured uncommitted lines of credit as of June 30, 2018.

Securities Sold Under Agreements to Repurchase (repurchase agreements) – Our repurchase agreements generally mature between 30 and 90 days following the transaction date and are accounted for as secured borrowings. Under repurchase agreements, we receive cash from the counterparty and provide U.S. government debt securities as collateral. The weighted average interest rate on the $97 million outstanding repurchase agreement balances as of June 30, 2018 was 2.15%.

TD Ameritrade Holding Corporation Senior Revolving Credit Facility – The Parent has access to a senior unsecured committed revolving credit facility in the aggregate principal amount of $300 million (the "Parent Revolving Facility"). The maturity date of the Parent Revolving Facility is April 21, 2022. There were no borrowings outstanding under the Parent Revolving Facility as of June 30, 2018.

TD Ameritrade Clearing, Inc. Senior Revolving Credit Facilities – TDAC has access to two senior unsecured committed revolving credit facilities with an aggregate principal amount of $1.45 billion, consisting of a $600 million (the "$600 Million Revolving Facility") and an $850 million (the "$850 Million Revolving Facility") senior revolving facility. The maturity dates of the $600 Million Revolving Facility and the $850 Million Revolving Facility are April 21, 2022 and May 16, 2019, respectively. There were no borrowings outstanding under the TDAC senior revolving facilities as of June 30, 2018.

Intercompany Credit Agreements – The Parent has entered into credit agreements with each of its primary broker-dealer and FCM/FDM subsidiaries, under which the Parent may make loans of cash or securities under committed and/or uncommitted lines of credit. The current committed and/or uncommitted lines of credit are summarized in the table below (dollars in millions):

Borrower Subsidiary	Committed Facility	Uncommitted Facility(1)	Termination Date
TD Ameritrade Clearing, Inc.	$400	$300	March 1, 2022
TD Ameritrade, Inc.	N/A	$300	March 1, 2022
TD Ameritrade Futures & Forex LLC	$30	N/A	August 11, 2021

(1) The Parent is permitted, but under no obligation, to make loans under uncommitted facilities.

There was $175 million of borrowings outstanding under the intercompany credit agreements as of June 30, 2018.

Stock Repurchase Program

On November 20, 2015, our board of directors authorized the repurchase of up to 30 million shares of our common stock. As of June 30, 2018, we had approximately 26 million shares remaining under this stock repurchase authorization.

Cash Dividends

We declared a $0.21 per share quarterly cash dividend on our common stock each quarter of fiscal 2018. We paid $357 million in cash dividends during the first nine months of fiscal 2018. We will pay the fourth quarter dividend of $0.21 per share on August 21, 2018 to all shareholders of record as of August 7, 2018.

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Contractual Obligations

The following item constitutes a material change in our contractual obligations outside the ordinary course of business since September 30, 2017:

During the first nine months of fiscal 2018, we accelerated and paid approximately $51 million of future purchase obligations. These purchase obligations were originally expected to be paid during fiscal years 2019 through 2027 and consisted of early contract termination costs associated with the Scottrade integration.

Off-Balance Sheet Arrangements

We enter into guarantees and other off-balance sheet arrangements in the ordinary course of business, primarily to meet the needs of our clients and to manage our asset-based revenues. For information on these arrangements, see the following sections under Item 1, Financial Statements – Notes to Condensed Consolidated Financial Statements: "General Contingencies" and "Guarantees" in Note 10 – Commitments and Contingencies and "Insured Deposit Account Agreement" in Note 15 – Related Party Transactions. Bank deposit account fees, generated from the IDA agreement and other sweep arrangements with non-affiliated third-party depository financial institutions, account for a significant percentage of our net revenues (28% of our net revenues for the first nine months of fiscal 2018). These sweep arrangements enable our clients to invest in FDIC-insured (up to specified limits) deposit products without the need for the Company to establish the significant levels of capital that would be required to maintain our own bank charter.

Websites and Social Media Disclosure

From time to time, the Company may use its website and/or Twitter as distribution channels of material information. The Company's Code of Business Conduct and Ethics, financial data and other important information regarding the Company is routinely accessible through and posted on the Company's website at www.amtd.com and its Twitter account @TDAmeritradePR. We ask that interested parties visit or subscribe to newsfeeds at www.amtd.com/newsroom to automatically receive email alerts and other information, including the most up-to-date corporate financial information, presentation announcements, transcripts and archives. The website to access the Company's Twitter account is https://twitter.com/TDAmeritradePR. Website links provided in this report, although correct when published, may change in the future. We make available free of charge on our website at www.amtd.com/investor-relations/sec-filings/ our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after we electronically file such material with or furnish it to the SEC. Our SEC filings are also available on the SEC's website at http://www.sec.gov/.

Item 3. – Quantitative and Qualitative Disclosures About Market Risk

Market risk generally represents the risk of loss that may result from the potential change in the value of a financial instrument as a result of fluctuations in interest rates and market prices. We have established policies, procedures and internal processes governing our management of market risks in the normal course of our business operations.

Market-related Credit Risk

Two primary sources of credit risk inherent in our business are (1) client credit risk related to margin lending and leverage and (2) counterparty credit risk related to securities lending and borrowing. We manage risk on client margin lending and leverage by requiring clients to maintain margin collateral in compliance with regulatory and internal guidelines. The risks associated with margin lending and leverage increase during periods of rapid market movements, or in cases where leverage or collateral is concentrated and market movements occur. We monitor required margin levels daily and, pursuant to such guidelines, require our clients to deposit additional collateral, or to reduce positions, when necessary. We continuously monitor client accounts to detect excessive concentration, large orders or positions, patterns of day trading and other activities that indicate increased risk to us. We manage risks associated with our securities lending and borrowing activities by requiring credit approvals for counterparties, by monitoring the market value of securities loaned and collateral values for securities borrowed on a daily basis and requiring additional cash as collateral for securities loaned or return of collateral for securities borrowed when necessary, and by participating in a risk-sharing program offered through the Options Clearing Corporation.

We are party to interest rate swaps related to our long-term debt, which are subject to counterparty credit risk. Credit risk on derivative financial instruments is managed by limiting activity to approved counterparties that meet a minimum credit rating threshold and by entering into credit support agreements, or by utilizing approved central clearing counterparties registered with the Commodity Futures Trading Commission. Our interest rate swaps require daily collateral coverage, in the form of cash or U.S. Treasury securities, for the aggregate fair value of the interest rate swaps.

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Interest Rate Risk

As a fundamental part of our brokerage business, we invest in interest-earning assets and are obligated on interest-bearing liabilities. In addition, we earn fees on our bank deposit account arrangements and on money market mutual funds, which are subject to interest rate risk. Changes in interest rates could affect the interest earned on assets differently than interest paid on liabilities. A rising interest rate environment generally results in us earning a larger net interest spread. Conversely, a falling interest rate environment generally results in us earning a smaller net interest spread.

Our most prevalent form of interest rate risk is referred to as "gap" risk. Gap risk occurs when the interest rates we earn on assets change at a different frequency or amount than the interest rates we pay on liabilities. For example, in the current low interest rate environment, sharp increases in short-term interest rates could result in net interest spread compression if the yields paid on interest-bearing client balances were to increase faster than our earnings on interest-earning assets. We seek to mitigate interest rate risk by aligning the average duration of interest-earning assets with that of interest-bearing liabilities. As of June 30, 2018, our consolidated duration was 2.0 years. We have an Asset/Liability Committee as the governance body with the responsibility of managing interest rate risk, including gap risk.

We use net interest simulation modeling techniques to evaluate the effect that changes in interest rates might have on pre-tax income. Our model includes all interest-sensitive assets and liabilities of the Company and interest-sensitive assets and liabilities associated with bank deposit account arrangements. The simulations involve assumptions that are inherently uncertain and, as a result, cannot precisely predict the impact that changes in interest rates will have on pre-tax income. Actual results may differ from simulated results due to differences in timing and frequency of rate changes, changes in market conditions and changes in management strategy that lead to changes in the mix of interest-sensitive assets and liabilities.

The simulations assume that the asset and liability structure of our Condensed Consolidated Balance Sheet and client bank deposit account balances would not be changed as a result of a simulated change in interest rates. The results of the simulations based on our financial position as of June 30, 2018 indicate that a gradual 1% (100 basis points) increase in interest rates over a 12-month period would result in a range of approximately $80 million to $175 million higher pre-tax income and a gradual 1% (100 basis points) decrease in interest rates over a 12-month period would result in a range of approximately $165 million to $190 million lower pre-tax income, depending largely on the extent and timing of possible increases in payment rates on client cash balances and interest rates charged on client margin balances.

Other Market Risks

Substantially all of our revenues and financial instruments are denominated in U.S. dollars. We generally do not enter into derivative transactions, except for hedging purposes.

Item 4. – Controls and Procedures

Disclosure Controls and Procedures

Management, including the Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the Company's disclosure controls and procedures as of June 30, 2018. Management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of June 30, 2018.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II – OTHER INFORMATION

Item 1. – Legal Proceedings

For information regarding legal proceedings, see Note 10 – Commitments and Contingencies – "Legal and Regulatory Matters" under Item 1, Financial Statements – Notes to Condensed Consolidated Financial Statements.

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Item 1A. – Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under Item 1A— "Risk Factors" in our annual report on Form 10-K for the year ended September 30, 2017, which could materially affect our business, financial condition or future results of operations. The risks described in our Form 10 K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

There have been no material changes from the risk factors disclosed in our Form 10-K for the fiscal year ended September 30, 2017.

Item 2. – Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program
April 1, 2018 – April 30, 2018	47,052	$ 57.64	—	25,979,986
May 1, 2018 – May 31, 2018	7,952	$ 57.70	—	25,979,986
June 1, 2018 – June 30, 2018	635	$ 60.73	—	25,979,986
Total – Three months ended June 30, 2018	55,639	$ 57.68	—	25,979,986

On November 20, 2015, our board of directors authorized the repurchase of up to 30 million shares of our common stock. We disclosed this authorization on November 20, 2015 in our annual report on Form 10-K. This program was the only stock repurchase program in effect and no programs expired during the third quarter of fiscal 2018.

During the quarter ended June 30, 2018, 55,639 shares were repurchased from employees for income tax withholding in connection with distributions of stock-based compensation.

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Item 6. – Exhibits

2.1^	Agreement and Plan of Merger, dated as of October 24, 2016, by and among Scottrade Financial Services, Inc., Rodger O. Riney, as Voting Trustee of the Rodger O. Riney Family Voting Trust U/A/D 12/31/2012, TD Ameritrade Holding Corporation and Alto Acquisition Corp. (incorporated by reference to Exhibit 2.1 of the Company's Form 8-K filed on October 28, 2016)
3.1	Amended and Restated Certificate of Incorporation of TD Ameritrade Holding Corporation, dated January 24, 2006 (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K filed on January 27, 2006)
3.2	Amended and Restated By-Laws of TD Ameritrade Holding Corporation, effective February 12, 2014 (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K filed on February 19, 2014)
4.1	Form of Certificate for Common Stock (incorporated by reference to Exhibit 4.1 of the Company's Form 8-A filed on September 5, 2002)
4.2	First Supplemental Indenture, dated November 25, 2009, among TD Ameritrade Holding Corporation, TD Ameritrade Online Holdings Corp., as guarantor, and The Bank of New York Mellon Trust Company, National Association, as trustee (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed on November 25, 2009)
4.3	Form of 5.600% Senior Note due 2019 (included in Exhibit 4.2)
4.4	Indenture, dated October 22, 2014, between TD Ameritrade Holding Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed on October 23, 2014)
4.5	Form of 3.625% Senior Note due 2025 (included in Exhibit 4.4)
4.6	Supplemental Indenture, dated October 22, 2014, between TD Ameritrade Holding Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.3 of the Company's Form 8-K filed on October 23, 2014)
4.7	Second Supplemental Indenture, dated March 9, 2015, between TD Ameritrade Holding Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K filed on March 9, 2015)
4.8	Form of 2.950% Senior Note due 2022 (included in Exhibit 4.7)
4.9	Third Supplemental Indenture, dated April 27, 2017, between TD Ameritrade Holding Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K filed on April 28, 2017)
4.10	Form of 3.300% Senior Note due 2027 (included in Exhibit 4.9)
10.1*	Insured Deposit Account Agreement, effective as of January 1, 2013, among TD Bank USA, N.A., TD Bank, N.A., The Toronto-Dominion Bank, TD Ameritrade, Inc., TD Ameritrade Clearing, Inc. and TD Ameritrade Trust Company

10.2	Credit Agreement, dated May 17, 2018, among TD Ameritrade Clearing, Inc., the lenders party thereto, Wells Fargo Securities, LLC, Barclays Bank PLC, Citibank, N.A., JPMorgan Chase Bank, N.A., U.S. Bank National Association and TD Securities (USA) LLC, as joint bookrunners and joint lead arrangers, and Wells Fargo Bank, National Association, as administrative agent (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on May 21, 2018)
10.3	First Amendment, dated May 17, 2018, to Credit Agreement, dated April 21, 2017, among TD Ameritrade Clearing, Inc., the lenders party thereto, U.S. Bank National Association, as syndication agent, Barclays Bank PLC, TD Securities (USA) LLC, Wells Fargo Securities, LLC, and Industrial and Commercial Bank of China Ltd., New York Branch, as co-documentation agents and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K filed on May 21, 2018)
15.1	Awareness Letter of Independent Registered Public Accounting Firm
31.1	Certification of Tim Hockey, Principal Executive Officer, as required pursuant to Section 302 of the Sarbanes - Oxley Act of 2002
31.2	Certification of Stephen J. Boyle, Principal Financial Officer, as required pursuant to Section 302 of the Sarbanes - Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema

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101.CAL XBRL Taxonomy Extension Calculation

101.LAB XBRL Taxonomy Extension Label

101.PRE XBRL Taxonomy Extension Presentation

101.DEF XBRL Taxonomy Extension Definition

^ Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted schedule upon request.

* Confidential treatment has been requested with respect to the omitted portions of this Exhibit, which portions have been filed separately with the Securities and Exchange Commission.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: August 7, 2018

TD Ameritrade Holding Corporation
(Registrant)

By: /s/ TIM HOCKEY
Tim Hockey
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ STEPHEN J. BOYLE
Stephen J. Boyle
Executive Vice President, Chief Financial Officer
(Principal Financial and Accounting Officer)