TD AMERITRADE HOLDING CORP
Form 10-Q
February 08, 2018

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 December 31, 2017
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 January 31, 2018, there were 567,369,331 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 December 31, 2017, and the related condensed consolidated statements of income, comprehensive income and cash flows for the three-month periods ended December 31, 2017 and 2016. 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
February 8, 2018

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TD AMERITRADE HOLDING CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 31, 2017	September 30, 2017
	(In millions)	
ASSETS		
Cash and cash equivalents	$1,644	$ 1,472
Cash and investments segregated and on deposit for regulatory purposes	10,136	10,446
Receivable from brokers, dealers and clearing organizations	1,291	1,334
Receivable from clients, net	18,578	17,151
Receivable from affiliates	219	137
Other receivables, net	199	174
Securities owned, at fair value	593	503
Investments available-for-sale, at fair value (including $99 million of securities pledged as collateral for repurchase agreements at December 31, 2017 and September 30, 2017)	99	746
Property and equipment at cost, net	780	752
Goodwill	4,197	4,213
Acquired intangible assets, net	1,432	1,470
Other assets	244	229
Total assets	$39,412	$ 38,627
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Payable to brokers, dealers and clearing organizations	$3,064	$ 2,504
Payable to clients	25,286	25,107
Accounts payable and other liabilities	714	815
Payable to affiliates	55	109
Notes payable	50	—
Securities sold under agreements to repurchase	97	97
Long-term debt	2,531	2,555
Deferred income taxes	182	193
Total liabilities	31,979	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; 567 million shares outstanding	7	7
Additional paid-in capital	3,375	3,369
Retained earnings	6,189	6,011
Treasury stock, common, at cost: 103 million shares	(2,119)	(2,116)
Deferred compensation	1	1
Accumulated other comprehensive loss	(20)	(25)
Total stockholders' equity	7,433	7,247
Total liabilities and stockholders' equity	$39,412	$ 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 December 31, 2017	2016
	(In millions, except per share amounts)	
Revenues:		
Transaction-based revenues:		
Commissions and transaction fees	$ 440	$ 355
Asset-based revenues:		
Bank deposit account fees	381	245
Net interest revenue	276	151
Investment product fees	133	94
Total asset-based revenues	790	490
Other revenues	27	14
Net revenues	1,257	859
Operating expenses:		
Employee compensation and benefits	415	214
Clearing and execution costs	47	36
Communications	53	35
Occupancy and equipment costs	80	44
Depreciation and amortization	34	24
Amortization of acquired intangible assets	38	19
Professional services	74	53
Advertising	64	57
Other	116	24
Total operating expenses	921	506
Operating income	336	353
Other expense:		
Interest on borrowings	20	14
Loss on sale of investments	11	—
Other	2	—
Total other expense	33	14
Pre-tax income	303	339
Provision for income taxes	6	123
Net income	$ 297	$ 216
Earnings per share — basic	$ 0.52	$ 0.41
Earnings per share — diluted	$ 0.52	$ 0.41
Weighted average shares outstanding — basic	567	527
Weighted average shares outstanding — diluted	569	530
Dividends declared per share	$ 0.21	$ 0.18

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 December 31,	
	2017	2016
	(In millions)	
Net income	$297	$216
Other comprehensive income (loss), before tax:		
Investments available-for-sale:		
Unrealized loss	(4)	(10)
Reclassification adjustment for realized loss included in net income	11	—
Net change in investments available-for-sale	7	(10)
Cash flow hedging instruments:		
Reclassification adjustment for portion of realized loss amortized to net income	1	1
Total other comprehensive income (loss), before tax	8	(9)
Income tax effect	(3)	4
Total other comprehensive income (loss), net of tax	5	(5)
Comprehensive income	$302	$211

See notes to condensed consolidated financial statements.

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

	Three Months Ended December 31,	
	2017	2016
	(In millions)	
Cash flows from operating activities:		
Net income	$297	$216
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	34	24
Amortization of acquired intangible assets	38	19
Deferred income taxes	(13)	7
Loss on sale of investments	11	—
Stock-based compensation	10	10
Other, net	5	1
Changes in operating assets and liabilities:		
Cash and investments segregated and on deposit for regulatory purposes	310	(534)
Receivable from brokers, dealers and clearing organizations	43	231
Receivable from clients, net	(1,428)	(98)
Receivable from/payable to affiliates, net	(101)	(38)
Other receivables, net	(24)	24
Securities owned, at fair value	(90)	154
Other assets	(90)	(21)
Payable to brokers, dealers and clearing organizations	560	(12)
Payable to clients	179	7
Accounts payable and other liabilities	(127)	(71)
Net cash used in operating activities	(386)	(81)
Cash flows from investing activities:		
Purchase of property and equipment	(63)	(29)
Cash paid in business acquisition	(12)	—
Proceeds from sale of investments available-for-sale, at fair value	643	—
Proceeds from sale and maturity of short-term investments	65	—
Net cash provided by (used in) investing activities	633	(29)
Cash flows from financing activities:		
Proceeds from notes payable, net	50	—
Payment of cash dividends	(119)	(95)
Proceeds from exercise of stock options: Three months ended December 31, 2016 – 1.3 million shares	—	23
Purchase of treasury stock for income tax withholding on stock-based compensation: Three months ended December 31, 2017 – 0.2 million shares; 2016 – 0.3 million shares	(8)	(11)
Other	2	—
Net cash used in financing activities	(75)	(83)
Net increase (decrease) in cash and cash equivalents	172	(193)
Cash and cash equivalents at beginning of period	1,472	1,855
Cash and cash equivalents at end of period	$1,644	$1,662

Supplemental cash flow information:		
Interest paid	$36	$19
Income taxes paid	$112	$99

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 Periods Ended December 31, 2017 and 2016
(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 2016-09 — In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 $3 million on its Condensed Consolidated Statement of Income for the three months ended December 31, 2017, 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 $9 million on the Company's Condensed Consolidated Statement of Cash Flows for the three months ended December 31, 2016. 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 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 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 is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years, with early adoption permitted. Therefore, ASU 2016-13 will be effective for the Company's fiscal year beginning on October 1, 2020, using a modified retrospective approach. 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 Accounting Standards Codification ("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 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and will require an entity to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Therefore, ASU 2016-02 will be effective for the Company's fiscal year beginning October 1, 2019. Early adoption is permitted. 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. 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 has not selected a transition method and 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 provides 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 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

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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 acquired assets and liabilities assumed are recorded as adjustments to the respective assets and liabilities, with the residual amounts allocated to goodwill. During the three months ended December 31, 2017, the Company recorded purchase accounting adjustments, primarily attributable to post-closing adjustments related to the Bank Merger Consideration and liabilities assumed, resulting in a net decrease in goodwill of $16 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 December 31, 2017 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	38
Other receivables	54
Securities owned	37
Property and equipment	133
Goodwill	1,730
Acquired intangible assets	974
Deferred tax assets	76
Other assets	34
Total assets acquired	11,699
Payable to brokers, dealers and clearing organizations	(354)
Payable to clients	(6,248)
Accounts payable and other liabilities	(239)
Payable to affiliates	(88)
Long-term debt[(2)]	(436)
Total liabilities assumed	(7,365)
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 months ended December 31, 2016, (dollars in millions):

	Three Months Ended December 31, 2016 (unaudited)
Pro forma net revenues	$ 1,072
Pro forma net income	$ 219
Pro forma basic earnings per share	$ 0.39
Pro forma diluted earnings per share	$ 0.38

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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):

	December 31, 2017	September 30, 2017
Corporate	$ 771	$ 279
Broker-dealer subsidiaries	668	997
Futures commission merchant and forex dealer member subsidiary	102	98
Trust company subsidiary	74	79
Investment advisory subsidiaries	29	19
Total	$ 1,644	$ 1,472

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

	December 31, 2017	September 30, 2017
Cash in demand deposit accounts	$ 4,131	$ 3,653
U.S. government debt securities	3,544	4,019
U.S. government agency mortgage-backed securities	1,433	1,486
Reverse repurchase agreements (collateralized by U.S. government debt securities)	750	1,004
Cash on deposit with futures commission merchants	228	209
U.S. government debt securities on deposit with futures commission merchant	50	75
Total	$ 10,136	$ 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 three months ended December 31, 2017 (dollars in millions):

Balance as of September 30, 2017	$4,213
Purchase accounting adjustments(1)	(16)
Balance as of December 31, 2017	$4,197

(1) The purchase accounting adjustments are primarily attributable to post-closing adjustments related to the Bank Merger Consideration and liabilities assumed in the acquisition of Scottrade. The purchase price allocation for the Scottrade acquisition is provisional as of December 31, 2017. 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 $455 million to $545 million, consisting of severance pay and other termination benefits ranging from $300 million to $320 million and contract termination and other costs ranging from $155 million to $225 million. All acquisition-related exit costs are expected to be incurred by the end of fiscal year 2018.

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The following table summarizes activity in the Company's exit liabilities for the three-month period ended December 31, 2017, which are included in accounts payable and other liabilities on the Condensed Consolidated Balance Sheets (dollars in millions):

	Severance Pay and Other Termination 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	82 (1)	98 (2)	180
Costs paid or otherwise settled	(20)	(95)	(115)
Balance, December 31, 2017	$ 200	$ 12	$212

(1) Costs incurred for severance pay and other termination 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 on the Condensed Consolidated Statements of Income.

There were no material non-acquisition related exit costs during the three months ended December 31, 2017 and 2016.
The following table summarizes the cumulative amount of acquisition-related exit costs incurred by the Company related to the Scottrade acquisition as of December 31, 2017 (dollars in millions):

	Severance Pay and Other Termination Benefits	Contract Termination and Other Costs	Total
Exit liabilities assumed in business acquisition	$ 100	$ 9	$109
Employee compensation and benefits	116	—	116
Communications	—	1	1
Occupancy and equipment costs	—	2	2
Professional services	—	8	8
Other operating expense	—	85	85
Other non-operating expense	—	2	2
Total	$ 216	$ 107	$323

The remaining acquisition-related exit costs are expected to be incurred and charged to expense over the course of the Scottrade integration during fiscal year 2018.

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 December 31, 2017, 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 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. An estimated income tax rate of 27% has been applied to the results of operations before consideration of discrete items for the three months ended December 31, 2017. The Company's effective income tax rate for the three months ended December 31, 2017 and 2016 was 2.0% and 36.3%, respectively. The provision for income taxes for the three months ended December 31, 2017 included an estimated net favorable adjustment of $68 million related to the remeasurement of the Company's deferred income tax balances as it pertains to the Act, a $3 million income tax benefit resulting from the change in accounting for income taxes

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related to equity-based compensation under ASU 2016-09, $10 million of favorable resolutions of state income tax matters and a $6 million favorable benefit primarily resulting from acquisition-related exit costs. 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 three months ended December 31, 2017 of approximately $0.14 per share. The provision for income taxes for the three months ended December 31, 2016 included $7 million of favorable resolutions of state income tax matters. This favorably impacted the Company's earnings for the three months ended December 31, 2016 by approximately $0.01 per share. As a result of the Act, the effective income tax rate for the full fiscal year 2018 is estimated to be approximately 22%, which includes the net favorable adjustment of $68 million described above. As a result of the Act, the Company estimates its effective income tax rate will be approximately 27% 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.

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 $68 million related to the remeasurement of the Company's deferred income tax balances is considered provisional at December 31, 2017. 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):

	December 31, 2017	September 30, 2017
Deferred tax assets:		
Accrued and other liabilities	$ 67	$ 131
Stock-based compensation	16	28
Unrecognized loss on cash flow hedging instruments	8	15
Allowance for doubtful accounts	3	6
Intangible assets, state tax benefit	5	5
Operating loss carryforwards	1	1
Gross deferred tax assets	100	186
Less: Valuation allowance	(1)	(1)
Net deferred tax assets	99	185
Deferred tax liabilities:		
Acquired intangible assets	(219)	(331)
Property and equipment	(38)	(35)
Prepaid expenses	(23)	(11)
Other deferred tax liabilities	(1)	(1)
Total deferred tax liabilities	(281)	(378)
Net deferred tax liabilities	$ (182)	$ (193)

As of December 31, 2017, 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):

December 31, 2017	Face Value	Unamortized Discounts and Debt Issuance Costs	Fair Value Adjustment (1)	Net Carrying Value
Other borrowings:				
Notes payable	$50	$ —	$ —	$ 50
Securities sold under agreements to repurchase	97	—	—	97
Subtotal - Other borrowings	147	—	—	147
Long-term debt:				
Senior Notes:				
5.600% Notes due 2019	500	(1)	11	510
2.950% Notes due 2022	750	(5)	(7)	738
3.625% Notes due 2025	500	(3)	5	502
3.300% Notes due 2027	800	(9)	(10)	781
Subtotal - Long-term debt	2,550	(18)	(1)	2,531
Total long-term debt and other borrowings	$2,697	$ (18)	$ (1)	$ 2,678

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.

Notes Payable – TD Ameritrade Clearing, Inc. ("TDAC"), a clearing broker-dealer subsidiary of the Company, utilizes secured uncommitted lines of credit for short-term liquidity. As of December 31, 2017, there was $50 million in borrowings outstanding under these credit lines.

Securities Sold Under Agreements to Repurchase (repurchase agreements) – At times, the Company enters into repurchase agreements to finance its short-term liquidity and capital needs. Under repurchase agreements, the Company receives cash from the counterparty and provides U.S. Treasury securities as collateral. On December 15, 2017, the Company's outstanding repurchase agreement matured and the Company entered into another repurchase agreement with the same counterparty. The December 15, 2017 repurchase agreement will mature on March 15, 2018 and its terms are similar to the prior agreement. The applicable interest rate under the December 15, 2017 repurchase agreement is calculated based on one-month LIBOR, plus an interest rate margin of ten basis points. As of December 31, 2017, the effective interest rate was 1.58%. The Company will repurchase the collateral on March 15, 2018 for

$97 million, plus accrued interest.

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. 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

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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 December 31, 2017, the weighted average effective interest rate on the aggregate principal balance of the Senior Notes was 2.65%.

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 December 31,	
	2017	2016
Gain (loss) on fair value of interest rate swaps	$(24)	$(49)
Gain (loss) on fair value of hedged fixed-rate debt	24	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):

	December 31, 2017	September 30, 2017
Pay-variable interest rate swaps designated as fair value hedges:		
Other assets	$ 16	$ 26
Accounts payable and other liabilities	$ (17)	$ (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 December 31, 2017 and September 30, 2017, the pay-variable interest rate swap counterparties had pledged $18 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 December 31, 2017 and September 30, 2017, the Company had pledged $16 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.

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

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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.

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
December 31, 2017	$1,704	$ 362	$ 1,342	9.42 %
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
December 31, 2017	$ 186	$ 0.25	$ 186
September 30, 2017	$ 155	$ 0.25	$ 155

Scottrade, 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
December 31, 2017	$ 367	$ 73	$ 294	10.04 %
September 30, 2017	$ 348	$ 70	$ 278	9.99 %

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 $10 Million)	Adjusted Net Capital in Excess of Required Adjusted Net Capital

December 31, 2017	$ 84	$ 23	$ 61
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 $34 million and $32 million as of December 31, 2017 and September 30, 2017, respectively, which exceeded the required Tier 1 capital by $14 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. The Court of Appeals has not yet ruled on any of the cases against TD Ameritrade. The Klein case is proceeding. 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 purported 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 Scottrade acquisition 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. On September 18, 2017, the acquisitions of Scottrade and of Scottrade Bank were completed. The Company intends to vigorously defend against this lawsuit and is 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 four 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) and Charles Layton, et al. v. Deloitte & Touche et al., Case No. 17CV42915 (filed October 2, 2017). 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 Ciuffitelli putative class action, plaintiffs allege that more than 1,500 investors were owed more than $600 million on the Aequitas securities they purchased. In that case and the other cases, collectively over 200 named plaintiffs allege a total of over $125 million in losses plus other damages. Of that amount, over 100 plaintiffs who were TD Ameritrade customers, allege approximately $35 million in losses plus other damages. In the Wurster and Pommier cases,

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TD Ameritrade filed a motion to compel arbitration as to the claims by those plaintiffs who were TD Ameritrade customers and the Court dismissed those claims. In those cases, plaintiffs have filed amended complaints and defendants have filed motions to dismiss. In the Ciuffitelli case, defendants have also moved to dismiss the pending complaint. Discovery has commenced. The Ramsdell case is stayed and the Layton case may similarly be stayed. These stays are expected to remain in place until the resolution of the motions to dismiss the Wurster and Pommier 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 $65 million as of December 31, 2017. 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 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. The Company seeks to mitigate the risks associated with its client margin and leverage activities by requiring clients to maintain margin collateral in

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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 account 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 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):

	December 31, 2017	September 30, 2017
Client margin securities	$ 25.6	$ 23.8
Stock borrowings	1.0	1.2
Total collateral available	$ 26.6	$ 25.0
Collateral loaned	$ 3.0	$ 2.4
Collateral repledged	7.8	4.1
Total collateral loaned or repledged	$ 10.8	$ 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	December 31, 2017	September 30, 2017
Cash	Receivable from brokers, dealers and clearing organizations	$ 246	$ 151
U.S. government debt securities	Securities owned, at fair value	469	398
Total		$ 715	$ 549

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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 re