

TD AMERITRADE HOLDING CORP
Form 10-Q
August 05, 2016

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

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended June 30, 2016

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 (I.R.S. Employer
incorporation or organization) 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 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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of July 27, 2016, there were 526,355,886 outstanding shares of the registrant's common stock.

Table of Contents

TD AMERITRADE HOLDING CORPORATION
INDEX

	Page No.
<u>PART I – FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Review Report of Independent Registered Public Accounting Firm</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>4</u>
<u>Condensed Consolidated Statements of Income</u>	<u>5</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>7</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>9</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>31</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>46</u>
Item 4. <u>Controls and Procedures</u>	<u>47</u>
<u>PART II – OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>47</u>
Item 1A. <u>Risk Factors</u>	<u>48</u>
Item 2. <u>Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities</u>	<u>49</u>
Item 6. <u>Exhibits</u>	<u>50</u>
<u>Signatures</u>	<u>51</u>

Table of Contents

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, 2016, and the related condensed consolidated statements of income and comprehensive income for the three-month and nine-month periods ended June 30, 2016 and 2015, and the condensed consolidated statements of cash flows for the nine-month periods ended June 30, 2016 and 2015. 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, 2015, 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 20, 2015. In our opinion, the accompanying condensed consolidated balance sheet of TD Ameritrade Holding Corporation and subsidiaries as of September 30, 2015, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ ERNST & YOUNG LLP

Chicago, Illinois

August 5, 2016

Table of Contents

TD AMERITRADE HOLDING CORPORATION
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)

	June 30, 2016	September 30, 2015
	(In millions)	
ASSETS		
Cash and cash equivalents	\$1,917	\$ 1,978
Short-term investments available-for-sale, at fair value	404	4
Cash and investments segregated and on deposit for regulatory purposes	7,064	6,305
Receivable from brokers, dealers and clearing organizations	1,293	862
Receivable from clients, net	12,162	12,770
Receivable from affiliates	96	93
Other receivables, net	132	144
Securities owned, at fair value	237	425
Property and equipment at cost, net	531	521
Goodwill	2,467	2,467
Acquired intangible assets, net	595	661
Other assets	209	145
Total assets	\$27,107	\$ 26,375
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Payable to brokers, dealers and clearing organizations	\$1,932	\$ 2,707
Payable to clients	17,504	16,035
Accounts payable and other liabilities	573	637
Payable to affiliates	5	6
Long-term debt	1,828	1,800
Deferred income taxes	293	287
Total liabilities	22,135	21,472
Stockholders' equity:		
Preferred stock, \$0.01 par value; 100 million shares authorized, none issued	—	—
Common stock, \$0.01 par value; one billion shares authorized; 631 million shares issued; June 30, 2016 - 527 million shares outstanding; September 30, 2015 - 537 million shares outstanding	6	6
Additional paid-in capital	1,654	1,649
Retained earnings	5,423	5,038
Treasury stock, common, at cost:		
June 30, 2016 - 104 million shares;	(2,088)	(1,765)
September 30, 2015 - 94 million shares		
Accumulated other comprehensive loss	(23)	(25)
Total stockholders' equity	4,972	4,903
Total liabilities and stockholders' equity	\$27,107	\$ 26,375
See notes to condensed consolidated financial statements.		

Table of Contents

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

	Three Months Ended June 30,		Nine Months Ended June 30,			
	2016	2015	2016	2015		
	(In millions, except per share amounts)					
Revenues:						
Transaction-based revenues:						
Commissions and transaction fees	\$347	\$ 328	\$ 1,035	\$1,036		
Asset-based revenues:						
Insured deposit account fees	234	209	696	620		
Net interest revenue	143	156	444	467		
Investment product fees	96	85	276	253		
Total asset-based revenues	473	450	1,416	1,340		
Other revenues	18	16	46	39		
Net revenues	838	794	2,497	2,415		
Operating expenses:						
Employee compensation and benefits	209	202	617	608		
Clearing and execution costs	35	36	102	108		
Communications	33	31	99	92		
Occupancy and equipment costs	43	40	128	121		
Depreciation and amortization	23	23	67	69		
Amortization of acquired intangible assets	22	22	66	67		
Professional services	47	43	121	120		
Advertising	58	54	202	199		
Other	20	18	61	66		
Total operating expenses	490	469	1,463	1,450		
Operating income	348	325	1,034	965		
Other expense (income):						
Interest on borrowings	14	13	39	30		
Gain on sale of investments	—	(7)	—	(7)
Other	—	—	—	1		
Total other expense (income)	14	6	39	24		
Pre-tax income	334	319	995	941		
Provision for income taxes	94	122	338	344		
Net income	\$240	\$ 197	\$ 657	\$597		
Earnings per share - basic	\$0.45	\$ 0.36	\$ 1.23	\$1.10		
Earnings per share - diluted	\$0.45	\$ 0.36	\$ 1.23	\$1.09		
Weighted average shares outstanding - basic	529	544	533	544		
Weighted average shares outstanding - diluted	531	547	536	547		
Dividends declared per share	\$0.17	\$ 0.15	\$ 0.51	\$0.45		

See notes to condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
	(In millions)			
Net income	\$240	\$197	\$657	\$597
Other comprehensive income (loss), before tax:				
Cash flow hedging instruments:				
Net unrealized loss	—	—	—	(15)
Reclassification adjustment for portion of realized loss amortized to net income	1	1	3	3
Total other comprehensive income (loss), before tax	1	1	3	(12)
Income tax effect	—	(1)	(1)	4
Total other comprehensive income (loss), net of tax	1	—	2	(8)
Comprehensive income	\$241	\$197	\$659	\$589
See notes to condensed consolidated financial statements.				

Table of Contents

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

	Nine Months Ended June 30, 2016 2015 (In millions)	
Cash flows from operating activities:		
Net income	\$657	\$597
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	67	69
Amortization of acquired intangible assets	66	67
Deferred income taxes	5	(11)
Gain on sale investments	—	(7)
Stock-based compensation	24	27
Excess tax benefits on stock-based compensation	(16)	(14)
Other, net	6	3
Changes in operating assets and liabilities:		
Cash and investments segregated and on deposit for regulatory purposes	(759)	691
Receivable from brokers, dealers and clearing organizations	(431)	(36)
Receivable from clients, net	608	(1,229
Receivable from/payable to affiliates, net	(4)	(7)
Other receivables, net	12	6
Securities owned, at fair value	188	(79)
Other assets	(37)	33
Payable to brokers, dealers and clearing organizations	(775)	(7)
Payable to clients	1,469	573
Accounts payable and other liabilities	(48)	(33)
Net cash provided by operating activities	1,032	643
Cash flows from investing activities:		
Purchase of property and equipment	(78)	(58)
Purchase of short-term investments	(602)	(503)
Proceeds from sale and maturity of short-term investments	201	501
Proceeds from sale of investments	—	10
Other	—	3
Net cash used in investing activities	(479)	(47)

(Continued on following page)

See notes to condensed consolidated financial statements.

Table of Contents

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

	Nine Months Ended June 30, 2016 2015 (In millions)	
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	\$—	\$1,248
Payment of debt issuance costs	—	(11)
Principal payments on long-term debt	—	(544)
Principal payments on notes payable	—	(150)
Payment of cash dividends	(272)	(244)
Proceeds from exercise of stock options: Nine months ended June 30, 2015 - 0.7 million shares	—	12
Purchase of treasury stock: Nine months ended June 30, 2016 - 10.7 million shares; 2015 - 3.9 million shares	(319)	(126)
Purchase of treasury stock for income tax withholding on stock-based compensation: Nine months ended June 30, 2016 - 0.9 million shares; 2015 - 0.6 million shares	(30)	(22)
Payment for future treasury stock purchases under accelerated stock repurchase agreement	(9)	—
Excess tax benefits on stock-based compensation	16	14
Net cash provided by (used in) financing activities	(614)	177
Net increase (decrease) in cash and cash equivalents	(61)	773
Cash and cash equivalents at beginning of period	1,978	1,460
Cash and cash equivalents at end of period	\$1,917	\$2,233
Supplemental cash flow information:		
Interest paid	\$46	\$23
Income taxes paid	\$377	\$355
See notes to condensed consolidated financial statements.		

Table of Contents

TD AMERITRADE HOLDING CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Month and Nine Month Periods Ended June 30, 2016 and 2015
(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, 2015.

Recently Issued Accounting Pronouncements

ASU 2016-13 — In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("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 the Company's financial statements.

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 simplifies several aspects of the accounting for share-based payment transactions, including: (1) all excess tax benefits and tax deficiencies should be recognized as income tax expense or benefit in the income statement; (2) tax effects of exercised or vested awards should be treated 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) excess tax benefits should be classified along 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) cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity in the statement of cash flows. The transition requirements are dependent upon each amendment within this update and will be applied either prospectively, retrospectively or using a modified retrospective transition method. ASU 2016-09 is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods, with early adoption permitted. Therefore, ASU 2016-09 will be effective for the Company's fiscal year beginning October 1, 2017. The Company is currently assessing the impact this ASU will have on the Company's 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 statement of financial position 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 statement of financial position. 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 this ASU will have on the Company's financial statements.

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

Table of Contents

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. Therefore, ASU 2014-09 will be effective for the Company's fiscal year beginning October 1, 2018. Early adoption is permitted for annual reporting periods beginning after December 15, 2016.

Subsequent to issuing ASU 2014-09, the FASB issued the following standards for the purpose of clarifying certain aspects of ASU 2014-09:

▲ASU 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net);

▲ASU 2016-10, Identifying Performance Obligations and Licensing; and

▲ASU 2016-12, Narrow-Scope Improvements and Practical Expedients.

These subsequently issued ASU's have the same effective date and transition requirements as ASU 2014-09. The Company is currently assessing the impact that these new revenue recognition standards will have on the Company's financial statements and evaluating which adoption method to apply.

2. CASH AND CASH EQUIVALENTS

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

	June 30, September 30,	
	2016	2015
Broker-dealer subsidiaries	\$ 877	\$ 721
Corporate	829	1,069
Futures commission merchant and forex dealer member subsidiary	123	72
Trust company subsidiary	67	77
Investment advisory subsidiaries	21	39
Total	\$ 1,917	\$ 1,978

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 company. Most of the trust company cash and cash equivalents arises from client transactions in the process of settlement, and therefore is generally not available for corporate purposes. Cash and cash equivalents of the investment advisory subsidiaries is generally not available for corporate purposes.

3. 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, September 30,	
	2016	2015
U.S. government debt securities	\$ 4,954	\$ 3,706
Reverse repurchase agreements (collateralized by U.S. government debt securities)	1,390	1,586
Cash in demand deposit accounts	537	802
Cash on deposit with futures commission merchants	108	136
U.S. government debt securities on deposit with futures commission merchant	75	75
Total	\$ 7,064	\$ 6,305

4. INCOME TAXES

The Company's effective income tax rate for the nine months ended June 30, 2016 was 34.0%, compared to 36.6% for the nine months ended June 30, 2015. The provision for income taxes for the nine months ended June 30, 2016 was impacted by \$38 million of net favorable adjustments to uncertain tax positions and related deferred income tax assets,

which includes a favorable \$33 million tax liability remeasurement related to a recent state court decision. The provision was also impacted by \$5 million of net favorable deferred income tax adjustments due to the remeasurement of deferred tax assets and liabilities and the cumulative

Table of Contents

impact of the decline in the state tax rate. These items had a net favorable impact on the Company's earnings for the nine months ended June 30, 2016 of approximately eight cents per share. The provision for income taxes for the nine months ended June 30, 2015 includes \$20 million of favorable resolutions of state income tax matters. This favorably impacted the Company's earnings for the nine months ended June 30, 2015 by approximately four cents per share.

5. LONG-TERM DEBT

Long-term debt consists of the following (dollars in millions):

	Face Value	Unamortized Discounts and Debt Issuance Costs	Fair Value Adjustment ⁽¹⁾	Net Carrying Value
June 30, 2016				
Senior Notes:				
5.600% Notes due 2019	\$ 500	\$ (2)	\$ 40	\$ 538
2.950% Notes due 2022	750	(6)	—	744
3.625% Notes due 2025	500	(4)	50	546
Total long-term debt	\$ 1,750	\$ (12)	\$ 90	\$ 1,828
September 30, 2015				
Senior Notes:				
5.600% Notes due 2019	\$ 500	\$ (2)	\$ 40	\$ 538
2.950% Notes due 2022	750	(7)	—	743
3.625% Notes due 2025	500	(4)	23	519
Total long-term debt	\$ 1,750	\$ (13)	\$ 63	\$ 1,800

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

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 a portion of this exposure, the Company has entered into fixed-for-variable interest rate swaps on the 2019 Notes and the 2025 Notes. Each fixed-for-variable interest rate swap has a notional amount of \$500 million and a maturity date matching the maturity date of the respective Senior Notes.

The interest rate swaps effectively change the fixed-rate interest on the 2019 Notes and 2025 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 and (b) 1.1022% for the swap on the 2025 Notes. As of June 30, 2016, the weighted average effective interest rate on the aggregate principal balance of the 2019 Notes and 2025 Notes was 2.39%.

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,
-----------------------------	----------------------------

	2016	2015	2016	2015
Gain (loss) on fair value of interest rate swaps	\$13	\$(24)	\$27	\$ 5
Gain (loss) on fair value of hedged fixed-rate debt	(13)	24	(27)	(5)
Net gain (loss) recorded in interest on borrowings	\$—	\$—	\$—	\$—

Cash Flow Hedging – On January 17, 2014, the Company entered into forward-starting interest rate swap contracts with an aggregate notional amount of \$500 million, to hedge against changes in the benchmark interest rate component of future interest

Table of Contents

payments resulting from the anticipated refinancing of its \$500 million aggregate principal amount of unsecured 4.150% Senior Notes that matured on December 1, 2014. The Company designated the contracts as a cash flow hedge of the future interest payments.

Under cash flow hedge accounting, until settlement the swap contracts are carried at fair value and, to the extent they are an effective hedge, any unrealized gains or losses are recorded in other comprehensive income (loss). Any ineffective portion of the unrealized gains or losses is immediately recorded into earnings. Upon settlement, any realized gain or loss that has been recorded in other comprehensive income (loss) is amortized into earnings over the term of the newly-issued fixed-rate debt.

On October 17, 2014, the Company sold \$500 million of 2025 Notes and paid approximately \$45 million to settle the forward-starting interest rate swap contracts. As of October 17, 2014, the Company recorded \$0.5 million of pre-tax loss immediately into earnings to reflect ineffectiveness resulting from the issuance of the 2025 Notes slightly earlier than forecast. As of June 30, 2016, the Company expects to amortize \$4.4 million of pre-tax losses, that were reported in accumulated other comprehensive loss, into interest on borrowings on the Condensed Consolidated Statements of Income within the next 12 months.

The following table summarizes pre-tax losses resulting from changes in the fair value of the forward-starting interest rate swaps for the periods indicated (dollars in millions):

Amount of Loss Recognized in Other Comprehensive Income (Loss) (Effective Portion)	
Three Months Ended June 30, 2015	Nine Months Ended June 30, 2015

Forward-starting interest rate swaps \$— —\$—\$ (15)

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):

Balance Sheet Location	June 30, September 30,		
	2016	2015	
Interest rate contracts:			
Pay-variable interest rate swaps designated as fair value hedges	Other assets	\$ 90	\$ 63

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, 2016 and September 30, 2015, the pay-variable interest rate swap counterparties had pledged \$94 million and \$77 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.

6. 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. TD Ameritrade Clearing, Inc. ("TDAC"), the

Company's clearing broker-dealer subsidiary, and TD Ameritrade, Inc., the Company's introducing broker-dealer subsidiary, 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. is 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 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"), 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 net capital under CFTC Regulation 1.17 of the greatest 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. On February 16, 2016, TDAFF also became registered

Table of Contents

as an FDM, subject to the net capital requirements under CFTC Regulation 5.7, which requires TDAFF to maintain minimum net capital of the greatest 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 clients in excess of \$10.0 million. An FCM and FDM, such as TDAFF, that is not registered as a securities broker-dealer must provide notice to the CFTC if its 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 clients in excess of \$10.0 million.

Net capital and net capital requirements for the Company's broker-dealer and FCM/FDM 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	Net Capital in Excess of Early Warning Threshold (5% of Aggregate Debit Balances)	Ratio of Net Capital to Aggregate Debit Balances
June 30, 2016	\$ 1,613	\$ 293	\$ 1,320	\$ 879	10.99 %
September 30, 2015	\$ 1,581	\$ 310	\$ 1,271	\$ 807	10.22 %

TD Ameritrade, Inc.

Date	Net Capital	Net Capital in Excess of the \$250,000 Minimum Dollar Requirement	Net Capital in Excess of Early Warning Threshold (120% of Required Net Capital)
June 30, 2016	\$ 167	\$ 166	\$ 166
September 30, 2015	\$ 228	\$ 228	\$ 227

TD Ameritrade Futures & Forex LLC

Date	Net Capital	Required Net Capital (8% of Total Risk Margin or \$20 Million Plus 5% of All Foreign Exchange Liabilities Owed to Clients in Excess of \$10 Million)	Net Capital in Excess of Required Net Capital	Net Capital in Excess of Early Warning Threshold (110% of Required Net Capital)
June 30, 2016	\$ 110	\$ 22	\$ 88	\$ 86
September 30, 2015	\$ 90	\$ 12	\$ 78	\$ 78

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, as defined. TDATC's Tier 1 capital was \$36 million and \$32 million as of June 30, 2016 and September 30, 2015, respectively, which exceeded the required Tier 1 capital by \$20 million and \$17 million, respectively.

7. 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's routing of client orders. The cases 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.; Tyler Verdieck v. TD Ameritrade, Inc.; Bruce Lerner v. TD Ameritrade, Inc.; Michael Sarbacker v. TD Ameritrade Holding Corporation, et al.; Gerald Klein v. TD Ameritrade Holding Corporation, et al. 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 and Lerner 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

Table of Contents

Trade 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 moved to dismiss each of the five putative class action complaints. The Magistrate Judge subsequently entered Findings and Recommendations with respect to each of the five actions, recommending that the District Judge dismiss each of the five lawsuits. On March 23, 2016, the District Judge entered an order dismissing all of the state law claims in the five actions, 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. None of the plaintiffs in the other four actions filed an amended complaint. The plaintiffs in the Zola, Sarbacker and Verdieck cases filed notices of appeal. The plaintiff in the Lerner case did not file a notice of appeal and that case is considered closed. The Klein case is proceeding in the District Court. The Company intends to vigorously defend against these lawsuits. The Company 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. and TDAC have received requests for documents and information from the regulatory authorities. TD Ameritrade, Inc. and TDAC are cooperating with the requests.

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 \$45 million as of June 30, 2016. 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. The Toronto-Dominion Bank ("TD") has agreed to indemnify the Company for

tax obligations, if any, pertaining to activities of TD Waterhouse Group, Inc. ("TD Waterhouse") prior to the Company's acquisition of TD Waterhouse in January 2006.

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

Table of Contents

connection with these activities, the Company also executes 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 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):

	June 30,	September 30,
	2016	2015

Edgar Filing: TD AMERITRADE HOLDING CORP - Form 10-Q

Client margin securities	\$ 16.8	\$ 17.7
Stock borrowings	1.0	0.7
Total collateral available	\$ 17.8	\$ 18.4
Collateral loaned	\$ 1.9	\$ 2.7
Collateral repledged	3.0	3.8
Total collateral loaned or repledged	\$ 4.9	\$ 6.5

15

Table of Contents

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, September 30,	
		2016	2015
Cash	Receivable from brokers, dealers and clearing organizations	\$ 282	\$ 190
U.S. government debt securities	Securities owned, at fair value	125	350
Total		\$ 407	\$ 540

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 13 for a description of a guarantee included in that agreement.

8. 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 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 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.

Table of Contents

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, 2016 and September 30, 2015 (dollars in millions):

	As of June 30, 2016			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Cash equivalents:				
Money market mutual funds	\$1,717	\$—	\$ —	\$ 1,717
Short-term investments available-for-sale:				
U.S. government debt securities	—	404	—	404
Investments segregated for regulatory purposes:				
U.S. government debt securities	—	5,029	—	5,029
Securities owned:				
U.S. government debt securities	—	225	—	225
Other	6	6	—	12
Subtotal - Securities owned	6	231	—	237
Other assets:				
Pay-variable interest rate swaps ⁽¹⁾	—	90	—	90
Auction rate securities	—	—	1	1
Subtotal - Other assets	—	90	1	91
Total assets at fair value	\$1,723	\$5,754	\$ 1	\$ 7,478
Liabilities:				
Accounts payable and other liabilities:				
Securities sold, not yet purchased:				
Equity securities	\$32	\$—	\$ —	\$ 32

(1) See "Fair Value Hedging" in Note 5 for details.

Table of Contents

	As of September 30, 2015			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Cash equivalents:				
Money market mutual funds	\$1,888	\$—	\$ —	\$ 1,888
Short-term investments available-for-sale:				
U.S. government debt securities	—	4	—	4
Investments segregated for regulatory purposes:				
U.S. government debt securities	—	3,781	—	3,781
Securities owned:				
Money market and other mutual funds	—	—	2	2
U.S. government debt securities	—	415	—	415
Other	3	5	—	8
Subtotal - Securities owned	3	420	2	425
Other assets:				
Pay-variable interest rate swaps ⁽¹⁾	—	63	—	63
Auction rate securities	—	—	1	1
Subtotal - Other assets	—	63	1	64
Total assets at fair value	\$1,891	\$4,268	\$ 3	\$ 6,162
Liabilities:				
Accounts payable and other liabilities:				
Securities sold, not yet purchased:				
Equity securities	\$23	\$—	\$ —	\$ 23

(1) See "Fair Value Hedging" in Note 5 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.

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

Table of Contents

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 and accounts payable and other liabilities are short-term in nature and accordingly are carried at amounts that approximate fair value. Receivable from/payable to brokers, dealers and clearing organizations, receivable from/payable to clients, receivable from/payable to affiliates, other receivables and accounts payable and other liabilities 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 includes 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 U.S. Treasury 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). In addition, this category 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 3 for a summary of cash and investments segregated and on deposit for regulatory purposes.

Long-term debt – As of June 30, 2016, 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 \$1.88 billion, compared to the aggregate carrying value of the Senior Notes on the Condensed Consolidated Balance Sheet of \$1.83 billion. As of September 30, 2015, the Company's Senior Notes had an aggregate estimated fair value, based on quoted market prices, of approximately \$1.83 billion, compared to the aggregate carrying value of the Senior Notes on the Condensed Consolidated Balance Sheet of \$1.80 billion.

Table of Contents

9. OFFSETTING ASSETS AND LIABILITIES

Substantially all of the Company's 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, 2016 and September 30, 2015 (dollars in millions):

June 30, 2016

	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	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheet	Collateral Received or Pledged (Including Cash) ⁽⁵⁾	Net Amount ⁽⁶⁾
Assets:						
Investments segregated for regulatory purposes:						
Reverse repurchase agreements	\$1,390	\$ —	\$ 1,390	\$ —	\$ (1,390)	\$ —
Receivable from brokers, dealers and clearing organizations:						
Deposits paid for securities borrowed ⁽¹⁾	986	—	986	(82)	(892)	12
Other assets:						
Pay-variable interest rate swaps	90	—	90	—	(90)	—
Total	\$2,466	\$ —	\$ 2,466	\$(82)	\$ (2,372)	\$ 12
Liabilities:						
Payable to brokers, dealers and clearing organizations:						
Deposits received for securities loaned ⁽²⁾⁽³⁾	\$1,851	\$ —	\$ 1,851	\$(82)	\$(1,592)	\$ 177

September 30, 2015

	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	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheet	Collateral Received or Pledged (Including Cash) ⁽⁵⁾	Net Amount ⁽⁶⁾
Assets:						
Investments segregated for regulatory purposes:						

Edgar Filing: TD AMERITRADE HOLDING CORP - Form 10-Q

Reverse repurchase agreements	\$1,586 \$	—\$ 1,586	\$— \$ (1,586) \$ —
Receivable from brokers, dealers and clearing organizations:			
Deposits paid for securities borrowed ⁽¹⁾	664 —	664	(70) (585) 9
Other assets:			
Pay-variable interest rate swaps	63 —	63	— (63) —
Total	\$2,313 \$	—\$ 2,313	\$(70) \$ (2,234) \$ 9
Liabilities:			
Payable to brokers, dealers and clearing organizations:			
Deposits received for securities loaned ⁽²⁾⁽³⁾	\$2,653 \$	—\$ 2,653	\$(70) \$ (2,364) \$ 219

20

Table of Contents

(1) Included in the gross amounts of deposits paid for securities borrowed is \$431 million and \$332 million as of June 30, 2016 and September 30, 2015, respectively, transacted through a risk-sharing program with the OCC, which guarantees the return of cash to the Company. See "General Contingencies" in Note 7 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 \$910 million and \$1,164 million as of June 30, 2016 and September 30, 2015, respectively, transacted through a risk-sharing program with the OCC, which guarantees the return of securities to the Company. See "General Contingencies" in Note 7 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 three 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, September 30,	
	2016	2015
Deposits received for securities loaned:		
Equity securities	\$ 1,634	\$ 2,413
Exchange-traded funds	132	150
Closed-end funds	56	41
Other	29	49
Total	\$ 1,851	\$ 2,653

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

(5) 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, 2016 and September 30, 2015, the Company had received total collateral with a fair value of \$2,487 million and \$2,350 million, respectively, and pledged total collateral with a fair value of \$1,668 million and \$2,437 million, respectively.

(6) 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.

10. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	Three Months Ended June 30,			
	2016		2015	
	Before Tax	Net of Tax	Before Tax	Net of Tax
Cash flow hedging instruments:				
Net unrealized loss	\$—	\$—	\$—	\$—
Reclassification adjustment for portion of realized loss amortized to net income ⁽¹⁾	1	1	(1)	—
Other comprehensive income	\$1	\$—	\$1	\$—

Table of Contents

	Nine Months Ended June 30,			
	2016		2015	
	Before Tax	Net of Tax	Before Tax	Net of Tax
Cash flow hedging instruments:				
Net unrealized loss	\$—	\$—	\$(15)	\$ 5
Reclassification adjustment for portion of realized loss amortized to net income ⁽¹⁾	3	(1)	3	(1)
Other comprehensive income (loss)	\$3	\$(1)	\$2	\$(8)

(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.

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

	Three Months Ended June 30, 2016		Nine Months Ended June 30, 2015	
	2016	2015	2016	2015
Cash flow hedging instruments:				
Beginning balance	\$(24)	\$(26)	\$(25)	\$(18)
Other comprehensive loss before reclassification	—	—	—	(10)
Amount reclassified from accumulated other comprehensive loss	1	—	2	2
Current period change	1	—	2	(8)
Ending balance	\$(23)	\$(26)	\$(23)	\$(26)

11. 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. The Company excluded from the calculation of diluted earnings per share 0.6 million and 0.4 million shares underlying stock-based compensation awards for the three and nine months ended June 30, 2016, respectively, because their inclusion would have been antidilutive. There were no material antidilutive awards for the three and nine months ended June 30, 2015.

12. ACCELERATED STOCK REPURCHASE AGREEMENTS

On June 8, 2016, the Company entered into an accelerated stock repurchase ("ASR") agreement with an investment bank counterparty. The Company paid \$42.5 million to the counterparty and received an initial delivery of 1.1 million shares of its common stock on June 9, 2016, representing 80% of the potential shares to be repurchased based on the closing stock price of \$31.35 on June 8, 2016. Settlement of the transaction is scheduled to occur after the end of an averaging period and is subject to early termination by the counterparty. The averaging period began on June 9, 2016 and will end no earlier than July 19, 2016 or later than September 15, 2016. The total number of shares to be repurchased by the Company from the counterparty will be based on the average of the daily volume-weighted average share prices of the Company's common stock during the averaging period, less a pre-determined discount, up to a maximum of 2.7 million shares. If the total number of shares to be repurchased exceeds the number of shares delivered on June 9, 2016, the Company will receive the remaining balance of shares from the investment bank counterparty. If the total number of shares to be repurchased is less than the number of shares delivered on June 9, 2016, the Company has the contractual right to deliver to the investment bank counterparty either shares of its common stock or cash. The Company expects to receive additional shares upon final settlement of the June 8, 2016 ASR agreement.

On December 1, 2015, the Company entered into an ASR agreement with an investment bank counterparty. The Company paid \$45 million to the counterparty and received an initial delivery of 1.0 million shares of its common stock on December 2, 2015, representing 80% of the potential shares to be repurchased based on the closing stock price of \$36.92 on December 1, 2015. Settlement of the transaction was to occur after the end of an averaging period, which would end no later than March 1, 2016 and was subject to early termination by the counterparty. The averaging period began on December 2, 2015 and ended on January 12, 2016, at the election of the counterparty. The total number of shares the Company purchased from the counterparty was based on the average of the daily volume-weighted average share prices of the Company's common stock during the averaging period, less a pre-determined discount. Upon settlement, the Company received an additional 0.3 million shares on January 15, 2016. The

Table of Contents

Company ultimately repurchased a total of 1.3 million shares under the December 1, 2015 ASR agreement at a net weighted average price of \$33.98 per share.

The Company has treated the ASR agreements as forward contracts indexed to its own common stock. The forward contracts have met all of the applicable criteria for equity classification, including the Company's right to settle in shares. The Company has reflected the shares received from the investment bank counterparties as treasury stock as of the dates the shares were delivered, which resulted in reductions of the outstanding shares used to calculate the weighted average common shares outstanding for both basic and diluted earnings per share during the respective periods.

13. RELATED PARTY TRANSACTIONS

Transactions with TD and Affiliates

As a result of the Company's acquisition of TD Waterhouse during fiscal 2006, TD became an affiliate of the Company. TD owned approximately 42% of the Company's common stock as of June 30, 2016. 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 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 has 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 will automatically renew 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 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, 2016, the IDA portfolio was comprised of approximately 74% fixed-rate notional investments and 26% 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.

Table of Contents

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 potential for the marketing fee calculation to result in a negative amount is remote. Accordingly, no contingent liability is carried on the Condensed Consolidated Balance Sheets for the IDA agreement. 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 Affiliates			
		Three months ended		Nine months ended	
		June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Insured Deposit Account Agreement	Insured deposit account fees	\$ 234	\$ 209	\$ 696	\$ 620
Referral and Strategic Alliance Agreement	Various	4	3	10	9
Mutual Fund Agreements	Investment product fees	4	—	7	—
Other	Various	1	2	6	5
Total revenues		\$ 243	\$ 214	\$ 719	\$ 634

Description	Statement of Income Classification	Expenses to TD and Affiliates			
		Three months ended		Nine months ended	
		June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Canadian Call Center Services Agreement	Professional services	\$ 4	\$ 5	\$ 13	\$ 14
Other	Various	1	—	2	2
Total expenses		\$ 5	\$ 5	\$ 15	\$ 16

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, 2016	September 30, 2015
Assets:		
Receivable from brokers, dealers and clearing organizations	\$ 1	\$ —
Receivable from affiliates	96	93
Liabilities:		
Payable to brokers, dealers and clearing organizations	\$ 97	\$ 70
Payable to affiliates	5	6

Receivables from and payables to brokers, dealers and clearing organizations primarily relate to securities borrowing and 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.

Table of Contents

14. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The 2019 Senior Notes are jointly and severally and fully and unconditionally guaranteed by TD Ameritrade Online Holdings Corp. ("TDAOH"), a wholly-owned subsidiary of the Company. Presented below is condensed consolidating financial information for the Company, its guarantor subsidiary and its non-guarantor subsidiaries for the periods indicated. Because all other comprehensive income (loss) activity occurred on the parent company for all periods presented, condensed consolidating statements of comprehensive income are not presented.

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF JUNE 30, 2016

(Unaudited)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total
	(In millions)				
ASSETS					
Cash and cash equivalents	\$655	\$ 2	\$ 1,260	\$ —	\$1,917
Short-term investments available-for-sale	400	3	1	—	404
Cash and investments segregated and on deposit for regulatory purposes	—	—	7,064	—	7,064
Receivable from brokers, dealers and clearing organizations	—	—	1,293	—	1,293
Receivable from clients, net	—	—	12,162	—	12,162
Investments in subsidiaries	5,754	5,640	—	(11,394)	—
Receivable from affiliates	5	1	95	(5)	96
Goodwill	—	—	2,467	—	2,467
Acquired intangible assets, net	—	146	449	—	595
Other, net	168	15	998	(72)	1,109
Total assets	\$6,982	\$ 5,807	\$ 25,789	\$ (11,471)	\$27,107
LIABILITIES AND STOCKHOLDERS' EQUITY					
Liabilities:					
Payable to brokers, dealers and clearing organizations	\$—	\$ —	\$ 1,932	\$ —	\$1,932
Payable to clients	—	—	17,504	—	17,504
Accounts payable and other liabilities	182	—	407	(16)	573
Payable to affiliates	—	—	10	(5)	5
Long-term debt	1,828	—	—	—	1,828
Deferred income taxes	—	53	296	(56)	293
Total liabilities	2,010	53	20,149	(77)	22,135
Stockholders' equity	4,972	5,754	5,640	(11,394)	4,972
Total liabilities and stockholders' equity	\$6,982	\$ 5,807	\$ 25,789	\$ (11,471)	\$27,107

Table of Contents

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF SEPTEMBER 30, 2015

(Unaudited)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total
	(In millions)				
ASSETS					
Cash and cash equivalents	\$920	\$ 2	\$ 1,056	\$ —	\$1,978
Short-term investments available-for-sale	—	3	1	—	4
Cash and investments segregated and on deposit for regulatory purposes	—	—	6,305	—	6,305
Receivable from brokers, dealers and clearing organizations	—	—	862	—	862
Receivable from clients, net	—	—	12,770	—	12,770
Investments in subsidiaries	5,762	5,648	—	(11,410)	—
Receivable from affiliates	6	1	92	(6)	93
Goodwill	—	—	2,467	—	2,467
Acquired intangible assets, net	—	146	515	—	661
Other, net	145	15	1,137	(62)	1,235
Total assets	\$6,833	\$ 5,815	\$ 25,205	\$ (11,478)	\$26,375
LIABILITIES AND STOCKHOLDERS' EQUITY					
Liabilities:					
Payable to brokers, dealers and clearing organizations	\$—	\$ —	\$ 2,707	\$ —	\$2,707
Payable to clients	—	—	16,035	—	16,035
Accounts payable and other liabilities	130	—	523	(16)	637
Payable to affiliates	—	—	12	(6)	6
Long-term debt	1,800	—	—	—	1,800
Deferred income taxes	—	53	280	(46)	287
Total liabilities	1,930	53	19,557	(68)	21,472
Stockholders' equity	4,903	5,762	5,648	(11,410)	4,903
Total liabilities and stockholders' equity	\$6,833	\$ 5,815	\$ 25,205	\$ (11,478)	\$26,375

Table of Contents

CONDENSED CONSOLIDATING STATEMENT OF INCOME

THREE MONTHS ENDED JUNE 30, 2016

(Unaudited)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total
	(In millions)				
Net revenues	\$6	\$ —	\$ 838	\$ (6)	\$838
Operating expenses	5	—	491	(6)	490
Operating income	1	—	347	—	348
Other expense	14	—	—	—	14
Income (loss) before income taxes and equity in income of subsidiaries	(13)	—	347	—	334
Provision for (benefit from) income taxes	(5)	—	99	—	94
Income (loss) before equity in income of subsidiaries	(8)	—	248	—	240
Equity in income of subsidiaries	248	248	—	(496)	—
Net income	\$240	\$ 248	\$ 248	\$ (496)	\$240

CONDENSED CONSOLIDATING STATEMENT OF INCOME

THREE MONTHS ENDED JUNE 30, 2015

(Unaudited)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total
	(In millions)				
Net revenues	\$5	\$ —	\$ 794	\$ (5)	\$794
Operating expenses	4	—	470	(5)	469
Operating income	1	—	324	—	325
Other expense (income)	13	—	(7)	—	6
Income (loss) before income taxes and equity in income of subsidiaries	(12)	—	331	—	319
Provision for (benefit from) income taxes	(5)	—	127	—	122
Income (loss) before equity in income of subsidiaries	(7)	—	204	—	197
Equity in income of subsidiaries	204	204	—	(408)	—
Net income	\$197	\$ 204	\$ 204	\$ (408)	\$197

Table of Contents

CONDENSED CONSOLIDATING STATEMENT OF INCOME

NINE MONTHS ENDED JUNE 30, 2016

(Unaudited)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total
	(In millions)				
Net revenues	\$16	\$ —	\$ 2,497	\$ (16)	\$2,497
Operating expenses	15	—	1,464	(16)	1,463
Operating income	1	—	1,033	—	1,034
Other expense	39	—	—	—	39
Income (loss) before income taxes and equity in income of subsidiaries	(38)	—	1,033	—	995
Provision for (benefit from) income taxes	(13)	—	351	—	338
Income (loss) before equity in income of subsidiaries	(25)	—	682	—	657
Equity in income of subsidiaries	682	682	—	(1,364)	—
Net income	\$657	\$ 682	\$ 682	\$ (1,364)	\$657

CONDENSED CONSOLIDATING STATEMENT OF INCOME

NINE MONTHS ENDED JUNE 30, 2015

(Unaudited)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total
	(In millions)				
Net revenues	\$13	\$ —	\$ 2,415	\$ (13)	\$2,415
Operating expenses	11	—	1,452	(13)	1,450
Operating income	2	—	963	—	965
Other expense (income)	31	—	(7)	—	24
Income (loss) before income taxes and equity in income of subsidiaries	(29)	—	970	—	941
Provision for (benefit from) income taxes	(11)	—	355	—	344
Income (loss) before equity in income of subsidiaries	(18)	—	615	—	597
Equity in income of subsidiaries	615	615	—	(1,230)	—
Net income	\$597	\$ 615	\$ 615	\$ (1,230)	\$597

Table of Contents

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

NINE MONTHS ENDED JUNE 30, 2016

(Unaudited)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Total
	(In millions)			
Net cash provided by operating activities	\$60	\$ —	\$ 972	\$1,032
Cash flows from investing activities:				
Purchase of property and equipment	—	—	(78) (78)
Purchase of short-term investments	(601)	—	(1) (602)
Proceeds from sale and maturity of short-term investments	200	—	1	201
Net cash used in investing activities	(401)	—	(78) (479)
Cash flows from financing activities:				
Payment of cash dividends	(272)	—	—	(272)
Purchase of treasury stock	(319)	—	—	(319)
Purchase of treasury stock for income tax withholding on stock-based compensation	(30)	—	—	(30)
Other, net	7	—	—	7
Net cash used in financing activities	(614)	—	—	(614)
Intercompany investing and financing activities, net	690	—	(690) —
Net increase (decrease) in cash and cash equivalents	(265)	—	204	(61)
Cash and cash equivalents at beginning of period	920	2	1,056	1,978
Cash and cash equivalents at end of period	\$655	\$ 2	\$ 1,260	\$1,917

Table of Contents

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

NINE MONTHS ENDED JUNE 30, 2015

(Unaudited)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Total
	(In millions)			
Net cash provided by (used in) operating activities	\$(12)	\$ —	\$ 655	\$643
Cash flows from investing activities:				
Purchase of property and equipment	—	—	(58)	(58)
Proceeds from sale and maturity of short-term investments	500	—	1	501
Purchase of short-term investments	(502)	—	(1)	(503)
Proceeds from sale of investments	1	—	9	10
Other	—	—	3	3
Net cash used in investing activities	(1)	—	(46)	(47)
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	1,248	—	—	1,248
Payment of debt issuance costs	(11)	—	—	(11)
Principal payments on long-term debt	(544)	—	—	(544)
Principal payments on notes payable	(150)	—	—	(150)
Payment of cash dividends	(244)	—	—	(244)
Purchase of treasury stock	(126)	—	—	(126)
Purchase of treasury stock for income tax withholding on stock-based compensation	(22)	—	—	(22)
Other	26	—	—	26
Net cash provided by financing activities	177	—	—	177
Intercompany investing and financing activities, net	675	—	(675)	—
Net increase (decrease) in cash and cash equivalents	839	—	(66)	773
Cash and cash equivalents at beginning of period	117	2	1,341	1,460
Cash and cash equivalents at end of period	\$956	\$ 2	\$ 1,275	\$2,233

Table of Contents

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, 2015, 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; the effect of the FDIC surcharge on our insured deposit account fees; 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: general economic and political conditions and other securities industry risks; fluctuations in interest rates; stock market fluctuations and changes in client trading activity; credit risk with clients and counterparties; increased competition; systems failures, delays and capacity constraints; network security risks; liquidity risk; new laws and regulations affecting our business; regulatory and legal matters and uncertainties 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, 2015 and in Item 1A of Part II of this quarterly report on Form 10-Q. 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 for the fiscal year ended September 30, 2015, 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, 2015.

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. The term "GAAP" refers to U.S. generally accepted accounting principles.

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. The term "GAAP" refers to U.S. generally accepted accounting principles.

Activity rate — funded accounts — Average client trades per day during the period divided by the average number of funded accounts during the period.

Asset-based revenues — Revenues consisting of (1) insured 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 insured 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 funded account (annualized) — Total trades divided by the average number of funded accounts during the period, annualized based on the number of trading days in the fiscal year.

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 and transaction fees per trade — Total commissions and transaction fee revenues as reported on the Company's Consolidated Statements of Income 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.

Table of Contents

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

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 the Company 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 wish to trade futures and/or options on futures.

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 insured deposit accounts or money market mutual funds.

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 Balance Sheets.

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 Balance Sheets.

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, pre-tax income, net income and cash flows from operating activities.

EPS excluding amortization of intangible assets — Earnings per share ("EPS") excluding amortization of intangible assets is a non-GAAP financial measure. We define EPS excluding amortization of intangible assets as earnings (loss) per share, adjusted to remove the after-tax effect of amortization of acquired intangible assets. We consider EPS excluding amortization of intangible assets an important measure of our financial performance. Amortization of acquired intangible assets is excluded because we believe it is not indicative of underlying business performance. EPS excluding amortization of intangible assets should be considered in addition to, rather than as a substitute for, GAAP earnings per share.

EPS from ongoing operations — EPS from ongoing operations is a non-GAAP financial measure. We define EPS from ongoing operations as earnings (loss) per share, adjusted to remove any significant unusual gains or charges. We consider EPS from ongoing operations an important measure of the financial performance of our ongoing business. Unusual gains and charges are excluded because we believe they are not likely to be indicative of the ongoing operations of our business. EPS from ongoing operations should be considered in addition to, rather than as a substitute for, GAAP earnings per share.

Fee-based investment balances — Client assets invested in money market mutual funds, other mutual funds and Company programs such as AdvisorDirect® and Amerinvest,® on which we earn fee revenues. Fee revenues earned on these balances are included in investment product fees on our Consolidated Statements of Income.

Funded accounts — All open client accounts with a total liquidation value greater than zero.

Futures accounts — Sub-accounts maintained by the Company 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 the Company's client account metrics.

Insured deposit account — 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 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 clients of the Company FDIC-insured 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

Table of Contents

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.

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 Company programs such as AdvisorDirect® and Amerinvest®.

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. The Company offers traditional, Roth, Savings Incentive Match Plan for Employees (SIMPLE) and Simplified Employee Pension (SEP) IRA accounts.

Liquid assets available for corporate investing and financing activities — Liquid assets available for corporate investing and financing activities is a non-GAAP financial measure. We consider liquid assets available for corporate investing and financing activities to be an important measure of our liquidity. We define liquid assets available for corporate investing and financing activities as the sum of (a) corporate cash and cash equivalents and short-term investments, excluding an amount that is being maintained to provide liquidity for operational contingencies, including lending to our broker-dealer, futures commission merchant ("FCM")/forex dealer member ("FDM") subsidiaries under intercompany credit agreements and (b) regulatory net capital of (i) our clearing broker-dealer subsidiary in excess of 10% of aggregate debit items and (ii) our introducing broker-dealer subsidiaries in excess of a minimum operational target established by management (\$50 million in the case of our primary introducing broker-dealer, TD Ameritrade, Inc.). We include the excess capital of our broker-dealer subsidiaries in the calculation of liquid assets available for corporate investing and financing activities, rather than simply including broker-dealer cash and cash equivalents, because capital requirements may limit the amount of cash available for dividend from the broker-dealer subsidiaries to the parent company. Excess capital, as defined under clause (b) above, is generally available for dividend from the broker-dealer subsidiaries to the parent company. Liquid assets available for corporate investing and financing activities is based on more conservative measures of broker-dealer net capital than regulatory requirements because we generally manage to higher levels of net capital at the broker-dealer subsidiaries than the regulatory thresholds require. Liquid assets available for corporate investing and financing activities should be considered as a supplemental measure of liquidity, rather than as a substitute for 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 the Company 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 Company programs such as AdvisorDirect® and Amerinvest®, 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 Statements of Income.

Net income excluding amortization of intangible assets — Net income excluding amortization of intangible assets is a non-GAAP financial measure. We define net income excluding amortization of intangible assets as net income (loss), adjusted to remove the after-tax effect of amortization of acquired intangible assets. We consider net income excluding amortization of intangible assets an important measure of our financial performance. Amortization of acquired intangible assets is excluded because we believe it is not indicative of underlying business performance. Net income excluding amortization of intangible assets should be considered in addition to, rather than as a substitute for,

GAAP net income.

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 insured 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 Company non-brokerage borrowings.

Table of Contents

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.

Operating expenses excluding advertising — Operating expenses excluding advertising is a non-GAAP financial measure. Operating expenses excluding advertising consists of total operating expenses, adjusted to remove advertising expense. We consider operating expenses excluding advertising an important measure of the financial performance of our ongoing business. Advertising spending is excluded because it is largely at the discretion of the Company, can vary significantly from period to period based on market conditions and generally relates to the acquisition of future revenues through new accounts rather than current revenues from existing accounts. Operating expenses excluding advertising should be considered in addition to, rather than as a substitute for, total operating expenses.

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.

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 insured 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 the Company's broker-dealer and FCM/FDM subsidiaries. Total trades are a significant source of the Company's 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 balances, especially client insured deposit account, margin, credit and mutual fund 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 our earning a smaller net interest spread.

34

Table of Contents

Financial Performance Metrics

Net income, diluted earnings per share and EBITDA are key metrics we use in evaluating our financial performance. Net income and 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 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, 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,								
	2016	2015		2016	2015							
	\$	% of Net Revenues	%	\$	% of Net Revenues	%						
Net income	\$240	28.6	%	\$197	24.8	%	\$657	26.3	%	\$597	24.7	%
Add:												
Depreciation and amortization	23	2.7	%	23	2.9	%	67	2.7	%	69	2.9	%
Amortization of acquired intangible assets	22	2.6	%	22	2.8	%	66	2.6	%	67	2.8	%
Interest on borrowings	14	1.7	%	13	1.6	%	39	1.6	%	30	1.2	%
Provision for income taxes	94	11.2	%	122	15.4	%	338	13.5	%	344	14.2	%
EBITDA	\$393	46.9	%	\$377	47.5	%	\$1,167	46.7	%	\$1,107	45.8	%

Our net income increased 22% and 10% for the third quarter and first nine months of fiscal 2016, respectively, compared to the same periods in fiscal 2015, primarily due to an increase in net revenues and a lower effective income tax rate during the third quarter and first nine months of fiscal 2016. These increases were partially offset by an increase in operating expenses and net interest on borrowings during the third quarter and first nine months of fiscal 2016 and a \$7 million gain on the sale of an investment during the third quarter of the prior year. Detailed analysis of net revenues and expenses is presented later in this discussion.

Our EBITDA increased 4% and 5% for the third quarter and first nine months of fiscal 2016, respectively, compared to the same periods in fiscal 2015, primarily due to an increase in net revenues, partially offset by an increase in operating expenses excluding depreciation and amortization during the third quarter and first nine months of fiscal 2016 and a \$7 million gain on the sale of an investment during the third quarter of the prior year.

Our diluted earnings per share increased 25% to \$0.45 and 13% to \$1.23 for the third quarter and first nine months of fiscal 2016, respectively, compared to \$0.36 and \$1.09 for the third quarter and first nine months of fiscal 2015, respectively. The increase in our diluted earnings per share for the third quarter and first nine months of fiscal 2016 was primarily due to higher net income and a decrease in average diluted shares outstanding as a result of our stock repurchase programs.

Operating Metrics

Our largest sources of revenues are asset-based revenues and transaction-based revenues. For the first nine months of fiscal 2016, asset-based revenues and transaction-based revenues accounted for 57% and 41% of our net revenues, respectively. Asset-based revenues consist of (1) insured 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 insured 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 client trades and average commissions and transaction fees 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.

Table of Contents

Asset-Based Revenue Metrics

We calculate the return on our insured 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 insured deposit account fees and net interest revenue by average spread-based assets. Spread-based assets consist of client and brokerage-related asset balances, including insured 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		Increase/ (Decrease)	Nine months ended		Increase/ (Decrease)	
	June 30, 2016	2015		June 30, 2016	2015		
Average insured deposit account balances	\$83,429	\$74,844	\$8,585	\$82,580	\$74,911	\$7,669	
Average interest-earning assets	22,733	20,444	2,289	22,250	19,768	2,482	
Average spread-based balances	\$106,162	\$95,288	\$10,874	\$104,830	\$94,679	\$10,151	
Insured deposit account fee revenue	\$234	\$209	\$25	\$696	\$620	\$76	
Net interest revenue	143	156	(13)	444	467	(23)	
Spread-based revenue	\$377	\$365	\$12	\$1,140	\$1,087	\$53	
Avg. annualized yield—insured deposit account fees	1.11	% 1.10	% 0.01	% 1.11	% 1.09	% 0.02	%
Avg. annualized yield—interest-earning assets	2.50	% 3.02	% (0.52)	% 2.62	% 3.11	% (0.49)	%
Net interest margin (NIM)	1.41	% 1.51	% (0.10)	% 1.43	% 1.51	% (0.08)	%

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)			Increase/ (Decrease)	Interest Revenue (Expense)			Increase/ (Decrease)
	Three months ended June 30, 2016	2015			Nine months ended June 30, 2016	2015		
Segregated cash	\$5	\$1	\$4		\$9	\$4	\$5	
Client margin balances	107	112	(5)		329	328	1	
Securities lending/borrowing, net	30	43	(13)		104	135	(31)	
Other cash and interest-earning investments	1	—	1		3	1	2	
Client credit balances	—	—	—		(1)	(1)	—	
Net interest revenue	\$143	\$156	\$ (13)		\$444	\$467	\$ (23)	
	Average Balance			%	Average Balance			%
	Three months ended June 30, 2016	2015			Nine months ended June 30, 2016	2015		
Segregated cash	\$7,425	\$3,976	87	%	\$6,713	\$4,546	48	%
Client margin balances	11,508	12,498	(8)	%	11,779	11,944	(1)	%
Securities borrowing	1,005	966	4	%	836	943	(11)	%
Other cash and interest-earning investments	2,795	3,004	(7)	%	2,922	2,335	25	%
Interest-earning assets	\$22,733	\$20,444	11	%	\$22,250	\$19,768	13	%

Edgar Filing: TD AMERITRADE HOLDING CORP - Form 10-Q

Client credit balances	\$14,706	\$12,226	20 %	\$14,385	\$12,150	18 %
Securities lending	2,083	2,210	(6)%	2,132	2,215	(4)%
Interest-bearing liabilities	\$16,789	\$14,436	16 %	\$16,517	\$14,365	15 %

36

Table of Contents

	Avg. Annualized Yield (Cost)				Net Yield Increase/ (Decrease)		Avg. Annualized Yield (Cost)				Net Yield Increase/ (Decrease)	
	Three months ended						Nine months ended					
	June 30, 2016	2015					June 30, 2016	2015				
Segregated cash	0.25 %	0.11 %	0.14 %			0.18 %	0.13 %	0.05 %				
Client margin balances	3.69 %	3.56 %	0.13 %			3.67 %	3.62 %	0.05 %				
Other cash and interest-earning investments	0.21 %	0.03 %	0.18 %			0.14 %	0.04 %	0.10 %				
Client credit balances	(0.01)%	(0.01)%	0.00 %			(0.01)%	(0.01)%	0.00 %				
Net interest revenue	2.50 %	3.02 %	(0.52)%			2.62 %	3.11 %	(0.49)%				

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

	Fee Revenue			Increase/ (Decrease)	Fee Revenue			Increase/ (Decrease)		
	Three months ended				Nine months ended					
	June 30, 2016	2015				June 30, 2016	2015			
Money market mutual fund	\$4	\$—	\$ 4		\$7	\$—	\$ 7			
Market fee-based investment balances	92	85	7		269	253	16			
Total investment product fees	\$96	\$85	\$ 11		\$276	\$253	\$ 23			
	Average Balance				Average Balance					
	Three months ended			%	Nine months ended			%		
	June 30, 2016	2015		Change	June 30, 2016	2015		Change		
Money market mutual fund	\$5,778	\$5,573	4 %		\$5,782	\$5,599	3 %			
Market fee-based investment balances	156,340	155,699	0 %		152,176	150,093	1 %			
Total fee-based investment balances	\$162,118	\$161,272	1 %		\$157,958	\$155,692	1 %			
	Average Annualized Yield				Average Annualized Yield					
	Three months ended		Increase/ (Decrease)		Nine months ended		Increase/ (Decrease)			
	June 30, 2016	2015			June 30, 2016	2015				
Money market mutual fund	0.26 %	0.00 %	0.26 %		0.16 %	0.00 %	0.16 %			
Market fee-based investment balances	0.23 %	0.22 %	0.01 %		0.23 %	0.22 %	0.01 %			
Total investment product fees	0.23 %	0.21 %	0.02 %		0.23 %	0.21 %	0.02 %			

Table of Contents

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		% Change	Nine months ended		% Change
	June 30,			June 30,		
	2016	2015		2016	2015	
Total trades (in millions)	29.56	27.33	8 %	88.22	85.21	4 %
Average client trades per day	461,941	433,759	6 %	469,262	455,642	3 %
Average client trades per funded account (annualized)	17.0	16.7	2 %	17.6	17.8	(1)%
Activity rate—funded accounts	6.8 %	6.7 %	1 %	7.0 %	7.1 %	(1)%
Trading days	64.0	63.0	2 %	188.0	187.0	1 %
Average commissions and transaction fees per trade	\$11.72	\$11.99	(2)%	\$11.74	\$12.16	(3)%
Order routing revenue (in millions)	\$77	\$71	8 %	\$223	\$223	0 %
Average order routing revenue per trade ⁽¹⁾	\$2.60	\$2.59	0 %	\$2.53	\$2.62	(3)%

(1) Average order routing revenue per trade is included in average commissions and transaction fees per trade.

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		% Change	Nine months ended		% Change
	June 30,			June 30,		
	2016	2015		2016	2015	
Funded accounts (beginning of period)	6,777,000	6,467,000	5 %	6,621,000	6,301,000	5 %
Funded accounts (end of period)	6,872,000	6,551,000	5 %	6,872,000	6,551,000	5 %
Percentage change during period	1 %	1 %		4 %	4 %	
Client assets (beginning of period, in billions)	\$711.2	\$695.3	2 %	\$667.4	\$653.1	2 %
Client assets (end of period, in billions)	\$736.3	\$702.3	5 %	\$736.3	\$702.3	5 %
Percentage change during period	4 %	1 %		10 %	8 %	
Net new assets (in billions)	\$13.6	\$11.7	16 %	\$45.2	\$46.8	(3)%
Net new assets annualized growth rate	8 %	7 %		9 %	10 %	

Table of Contents

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,		%	Nine months ended		%
	2016	2015	Change	June 30, 2016	2015	Change
Revenues:						
Transaction-based revenues:						
Commissions and transaction fees	\$347	\$328	6 %	\$1,035	\$1,036	0 %
Asset-based revenues:						
Insured deposit account fees	234	209	12 %	696	620	12 %
Net interest revenue	143	156	(8) %	444	467	(5) %
Investment product fees	96	85	13 %	276	253	9 %
Total asset-based revenues	473	450	5 %	1,416	1,340	6 %
Other revenues	18	16	13 %	46	39	18 %
Net revenues	838	794	6 %	2,497	2,415	3 %
Operating expenses:						
Employee compensation and benefits	209	202	3 %	617	608	1 %
Clearing and execution costs	35	36	(3) %	102	108	(6) %
Communications	33	31	6 %	99	92	8 %
Occupancy and equipment costs	43	40	8 %	128	121	6 %
Depreciation and amortization	23	23	0 %	67	69	(3) %
Amortization of acquired intangible assets	22	22	0 %	66	67	(1) %
Professional services	47	43	9 %	121	120	1 %
Advertising	58	54	7 %	202	199	2 %
Other	20	18	11 %	61	66	(8) %
Total operating expenses	490	469	4 %	1,463	1,450	1 %
Operating income	348	325	7 %	1,034	965	7 %
Other expense (income):						
Interest on borrowings	14	13	8 %	39	30	30 %
Gain on sale of investments	—	(7)	(100) %	—	(7)	(100) %
Other	—	—	N/A	—	1	(100) %
Total other expense (income)	14	6	133 %	39	24	63 %
Pre-tax income	334	319	5 %	995	941	6 %
Provision for income taxes	94	122	(23) %	338	344	(2) %
Net income	\$240	\$197	22 %	\$657	\$597	10 %
Other information:						
Effective income tax rate	28.1 %	38.2 %		34.0 %	36.6 %	
Average debt outstanding	\$1,748	\$1,783	(2) %	\$1,748	\$1,500	17 %
Effective interest rate incurred on borrowings	3.14 %	2.87 %		3.00 %	2.69 %	

Table of Contents

Three-Month Periods Ended June 30, 2016 and 2015

Net Revenues

Commissions and transaction fees increased 6% to \$347 million, primarily due to increased client trading activity, partially offset by lower average commissions and transaction fees per trade. Total trades increased 8%, as average client trades per day increased 6% to 461,941 for the third quarter of fiscal 2016 compared to 433,759 for the third quarter of the prior year, and there was one more trading day during the third quarter of fiscal 2016. Average client trades per funded account (annualized) were 17.0 for the third quarter of fiscal 2016 compared to 16.7 for the third quarter of the prior year. Average commissions and transaction fees per trade decreased to \$11.72 for the third quarter of fiscal 2016 from \$11.99 for the third quarter of the prior year, primarily due to a lower percentage of option trades, which earn higher average commissions and transaction fees per trade, a higher percentage of futures trades, which earn somewhat lower average commissions and transaction fees per trade and lower average contracts per trade on option trades. There was also a slightly higher percentage of our clients' trades receiving reduced commission rates as a result of continued price competition in the industry, including various free trade offers.

Asset-based revenues, which consists of insured deposit account fees, net interest revenue and investment product fees, increased 5% to \$473 million for the third quarter of fiscal 2016, primarily due to an 11% increase in average spread-based assets and an increase of 2 basis points in the average yield earned on total fee-based investment balances. These increases were partially offset by a decrease of 10 basis points in net interest margin to 1.41%, as the benefit realized on the December 2015 federal funds rate increase was more than offset by a decrease in net interest revenue from our securities borrowing/lending program and the impact of lower average client margin balances, which earn a larger net interest spread, as well as higher average segregated cash balances, which earn a lower net interest spread. On December 16, 2015, the Federal Open Market Committee increased the target range for the federal funds rate by 0.25% to between 0.25% and 0.50%.

Insured deposit account fees increased 12% to \$234 million, primarily due to an 11% increase in average client IDA balances and an increase of 1 basis point in the average yield earned on the IDA assets. On March 15, 2016, the FDIC announced its final rule to increase the deposit insurance fund to a statutorily required minimum level by imposing a surcharge on quarterly assessments. The surcharge began in July 2016 and is expected to continue for two years. We expect the FDIC surcharge to decrease our insured deposit account fees by approximately \$5 million per quarter, reducing the average yield earned on the IDA assets by approximately 2.5 basis points. For more information about the IDA agreement, please see Note 13 – RELATED PARTY TRANSACTIONS under Item 1, Financial Statements – Notes to Condensed Consolidated Financial Statements.

Net interest revenue decreased 8% to \$143 million, primarily due to a \$13 million decrease in net interest revenue from our securities borrowing/lending program and an 8% decrease in average client margin balances, partially offset by increases in the average yields earned on client margin, segregated cash and other cash and interest-earning investment balances as a result of the December 2015 federal funds rate increase.

Investment product fees increased 13% to \$96 million, primarily due to an increase of 2 basis points in the average yield earned on total fee-based investment balances, which includes the impact of the December 2015 federal funds rate increase and a \$4 million revenue deferral during the third quarter of the prior year related to an Amerivest® fee rebate offer. For client assets subject to the Amerivest® fee rebate offer, if the model portfolio in which the client is invested experiences two consecutive quarters of negative performance (before advisory fees), the Company will refund the advisory fees for both quarters to the client. Several of the portfolios experienced negative performance for the third quarter of the prior year, therefore recognition of the revenue for the related advisory fees was deferred. We do not expect to renew the Amerivest® fee rebate offer which concludes on October 5, 2016, therefore the quarter ending September 30, 2017 will be the last period subject to the rebate offer.

Operating Expenses

Total operating expenses increased 4% during the third quarter of fiscal 2016 compared to the third quarter of the prior year.

Employee compensation and benefits increased 3% to \$209 million, primarily due to increased health insurance costs, annual merit increases and higher incentive-based compensation related to Company and individual performance.

Professional services increased 9% to \$47 million, primarily due to increased usage of consulting and contract services in connection with operational and technology projects, partially offset by lower fees associated with legal and regulatory matters.

Advertising expense increased 7% to \$58 million. 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 find that self-directed investors tend to demonstrate more interest in financial products and services during certain times of the year, such as in months immediately preceding the annual April tax filing deadline, and less interest during certain other times, such as the summer months. In addition, in periods when advertising market demand is weak, we may adjust our spending to take advantage of attractive advertising rates.

Table of Contents

Other operating expenses increased 11% to \$20 million, primarily due to the impact of an \$8 million insurance recovery during the third quarter of the prior year, partially offset by lower litigation, arbitration and regulatory losses during the third quarter of fiscal 2016 compared to the third quarter of the prior year.

Income Taxes

Our effective income tax rate was 28.1% for the third quarter of fiscal 2016, compared to 38.2% for the third quarter of the prior year. The effective income tax rate for the third quarter of 2016 was lower primarily due to \$34 million of net favorable adjustments to uncertain tax positions and related deferred income tax assets, which includes a favorable \$33 million tax liability remeasurement related to a recent state court decision. These items had a net favorable impact on our earnings for the third quarter of fiscal 2016 of approximately six cents per share. We expect our effective income tax rate to range from 38% to 39% for the remainder of fiscal 2016, excluding the effect of any adjustments related to remeasurement or resolution of uncertain tax positions and incremental tax credits or incentives. However, 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.

Nine-Month Periods Ended June 30, 2016 and 2015

Net Revenues

Commissions and transaction fees decreased slightly to \$1.04 billion, primarily due to lower average commissions and transaction fees per trade, mostly offset by increased client trading activity. Average commissions and transaction fees per trade decreased to \$11.74 for the first nine months of fiscal 2016 from \$12.16 for the first nine months of the prior year, primarily due to lower average contracts per trade on option and futures trades and a 3% decrease in average order routing revenue per trade. There was also a slightly higher percentage of our clients' trades receiving reduced commission rates as a result of continued price competition in the industry, including various free trade offers. Total trades increased 4%, as average client trades per day increased 3% to 469,262 for the first nine months of fiscal 2016 compared to 455,642 for the first nine months of the prior year, and there was one more trading day during the first nine months of fiscal 2016.

Asset-based revenues increased 6% to \$1.42 billion for the first nine months of fiscal 2016, primarily due to an 11% increase in average spread-based assets and an increase of 2 basis points in the average yield earned on total fee-based investment balances. These increases were partially offset by a decrease of 8 basis points in net interest margin to 1.43%, as the benefit realized on the December 2015 federal funds rate increase was more than offset by a decrease in net interest revenue from our securities borrowing/lending program and the impact of lower average client margin balances, which earn a larger net interest spread, as well as higher average cash balances, which earn a lower net interest spread.

Insured deposit account fees increased 12% to \$696 million, primarily due to a 10% increase in average client IDA balances and an increase of 2 basis points in the average yield earned on the IDA assets.

Net interest revenue decreased 5% to \$444 million, primarily due to a \$31 million decrease in net interest revenue from our securities borrowing/lending program and a 1% decrease in average client margin balances, partially offset by increases in the average yields earned on client margin, segregated cash and other cash and interest-earning investment balances as a result of the December 2015 federal funds rate increase.

Investment product fees increased 9% to \$276 million, primarily due to an increase of 2 basis point in the average yield earned on total fee-based investment balances, which includes the impact of the December 2015 federal funds rate increase and a \$4 million revenue deferral during the third quarter of the prior year related to an Amerivest® fee rebate offer, and a 1% increase in average market fee-based investment balances.

Other revenues increased 18% to \$46 million, primarily due to increased fees from processing corporate securities reorganizations and favorable fair market value adjustments to U.S. government debt securities held for investment purposes by our broker-dealer subsidiaries.

Operating Expenses

Total operating expenses increased slightly during the first nine months of fiscal 2016 compared to the first nine months of the prior year.

Employee compensation and benefits increased 1% to \$617 million, primarily due to annual merit increases and increased health insurance costs.

Clearing and execution costs decreased 6% to \$102 million, primarily due to a \$5 million benefit from a retroactive fee decrease by the Options Clearing Corporation during the first quarter of fiscal 2016.

Communications expense increased 8% to \$99 million, primarily due to increased costs for quotes and market information.

Table of Contents

Occupancy and equipment costs increased 6% to \$128 million, primarily due to increased software maintenance and facilities expenses.

Other operating expenses decreased 8% to \$61 million, primarily due to lower litigation, arbitration and regulatory losses, bad debt and travel expenses. These decreases were partially offset by the impact of an \$8 million insurance recovery during the third quarter of the prior year related to previous losses and a \$3 million recovery of money market funds from the final distribution of The Reserve Primary Fund during the first quarter of the prior year.

Other Expense and Income Taxes

Interest on borrowings increased 30% to \$39 million, primarily due to a 17% increase in average debt outstanding and an increase of 31 basis points in the average effective interest rate incurred on our debt. The increase in average debt outstanding was primarily due to our issuance, on March 4, 2015, of \$750 million of 2.950% Senior Notes due April 1, 2022 for general corporate purposes, including liquidity for operational contingencies.

Our effective income tax rate was 34.0% for the first nine months of fiscal 2016, compared to 36.6% for the first nine months of the prior year. The effective income tax rate for the first nine months of fiscal 2016 was lower primarily due to \$38 million of net favorable adjustments to uncertain tax positions and related deferred income tax assets, which includes a favorable \$33 million tax liability remeasurement related to a recent state court decision. The effective income tax rate was also impacted by \$5 million of net favorable deferred income tax adjustments due to the remeasurement of deferred tax assets and liabilities and the cumulative impact of the decline in the state tax rate. These items had a net favorable impact on our earnings for the first nine months of fiscal 2016 of approximately eight cents per share. The effective income tax rate for the first nine months of the prior year was lower primarily due to \$20 million of favorable resolutions of state income tax matters. This favorably impacted our earnings for the first nine months of the prior year by approximately four cents per share.

LIQUIDITY AND CAPITAL RESOURCES

As a holding company, TD Ameritrade Holding Corporation conducts substantially all of its business through its operating subsidiaries, principally its broker-dealer and futures commission merchant ("FCM")/forex dealer member ("FDM") subsidiaries.

We have historically financed our liquidity and capital needs primarily through the use of funds generated from subsidiary operations and from borrowings under our credit agreements. 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 2016 were financed primarily from our subsidiaries' earnings and cash on hand. We plan to finance our capital and liquidity needs during the remainder of fiscal 2016 primarily from our subsidiaries' earnings, cash on hand and borrowings. During fiscal 2016, we plan to return approximately 60% to 80% of our net income excluding amortization of intangible assets to our stockholders through a combination of cash dividends and our stock repurchase programs. We returned \$591 million, or approximately 85% of net income excluding amortization of intangible assets, to our stockholders during the first nine months of fiscal 2016 through cash dividends and our stock repurchase programs. For more information about our dividends and stock repurchases, see "Cash Dividends" and "Stock Repurchase Programs" later in this section.

On March 4, 2015, we sold, through a public offering, \$750 million aggregate principal amount of unsecured 2.950% Senior Notes due April 1, 2022. We issued the 2.950% Senior Notes for general corporate purposes, including liquidity for operational contingencies. Liquidity for operational contingencies could be used to fund increases in our 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.

Dividends from our subsidiaries are an important source of liquidity for the parent company. 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 company.

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 subsidiary, this minimum net capital level is determined by a calculation described in Rule 15c3-1 that is primarily based on the broker-dealer's "aggregate debits," which primarily are a function of client margin balances at the clearing broker-dealer. Since our aggregate debits may fluctuate significantly, our minimum net capital requirements may also fluctuate significantly from period to period. The parent company may make cash capital contributions to our broker-dealer and FCM/FDM subsidiaries, if necessary, to meet minimum net capital requirements.

Table of Contents

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 that is not registered as a securities broker-dealer, must provide notice to the CFTC if its 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 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.

As of June 30, 2016, our broker-dealer and FCM/FDM subsidiaries had net capital as follows (dollars in millions):

	Net Capital	Early Warning Threshold	Net Capital in Excess of Early Warning Threshold
TD Ameritrade Clearing, Inc.	\$ 1,613	\$ 734	\$ 879
TD Ameritrade, Inc.	\$ 167	\$ 0.3	\$ 166
TD Ameritrade Futures & Forex LLC	\$ 110	\$ 24	\$ 86

Our clearing broker-dealer subsidiary, TD Ameritrade Clearing, Inc. ("TDAC"), engages 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 insured deposit accounts and money market mutual funds. These types of broker-dealer activities require active daily liquidity management.

Most of TDAC's 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 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.

TDAC is 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. TDAC had \$407 million and \$540 million of cash and investments deposited with clearing organizations for the clearing of client equity and option trades as of June 30, 2016 and September 30, 2015, respectively. The largest amount of TDAC cash and investments ever deposited with clearing organizations was approximately \$714 million, which occurred in October 2015.

TDAC's liquidity needs relating to client trading and margin borrowing are met primarily through cash balances in client brokerage accounts and lending of client margin securities. Cash balances in client brokerage accounts were \$17.2 billion and \$15.7 billion as of June 30, 2016 and September 30, 2015, respectively. 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. TDAC had \$6.8 billion and \$6.0 billion of cash and investments segregated in special reserve bank accounts for the exclusive benefit of clients under Rule 15c3-3 as of June 30, 2016 and September 30, 2015, respectively.

For general liquidity needs, TDAC also maintains a senior unsecured revolving credit facility in an aggregate principal amount of \$300 million. This facility is described under Loan Facilities – TD Ameritrade Clearing, Inc. Credit Agreement later in this section. There were no borrowings outstanding on this facility as of June 30, 2016 and September 30, 2015.

In addition, we have established intercompany credit agreements under which the broker-dealer and FCM/FDM subsidiaries may borrow from the parent company. The intercompany credit agreement with TDAC provides for a committed revolving loan facility of \$700 million and an uncommitted revolving loan facility of \$300 million. The intercompany credit agreements are described under Loan Facilities – Intercompany Credit Agreements later in this section. There were no borrowings outstanding under any of the intercompany credit agreements as of June 30, 2016 and September 30, 2015.

Liquid Assets Available for Corporate Investing and Financing Activities

We consider "liquid assets available for corporate investing and financing activities" to be an important measure of our liquidity. Liquid assets available for corporate investing and financing activities is considered a non-GAAP financial measure. We include the excess capital of our broker-dealer subsidiaries in the calculation of liquid assets available for corporate investing and financing activities, rather than simply including broker-dealer cash and cash equivalents, because capital requirements may limit the amount of cash available for dividend from the broker-dealer subsidiaries to the parent company. Excess capital, as defined below, is

Table of Contents

generally available for dividend from the broker-dealer subsidiaries to the parent company. Liquid assets available for corporate investing and financing activities should be considered as a supplemental measure of liquidity, rather than as a substitute for cash and cash equivalents.

We define liquid assets available for corporate investing and financing activities as the sum of (a) corporate cash and cash equivalents and short-term investments, excluding an amount that is being maintained to provide liquidity for operational contingencies, including lending to our broker-dealer and FCM/FDM subsidiaries under intercompany credit agreements and (b) regulatory net capital of (i) our clearing broker-dealer subsidiary in excess of 10% of aggregate debit items and (ii) our introducing broker-dealer subsidiaries in excess of a minimum operational target established by management (\$50 million in the case of our primary introducing broker-dealer, TD Ameritrade, Inc.). Liquid assets available for corporate investing and financing activities is based on more conservative measures of broker-dealer net capital than regulatory requirements because we generally manage to higher levels of net capital at the broker-dealer subsidiaries than the regulatory thresholds require.

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

	June 30,	Sept. 30,	Change
	2016	2015	
Cash and cash equivalents	\$1,917	\$1,978	\$(61)
Less: Non-corporate cash and cash equivalents	(1,088)	(909)	(179)
Corporate cash and cash equivalents	829	1,069	(240)
Corporate short-term investments	400	—	400
Less: Corporate liquidity maintained for operational contingencies	(764)	(750)	(14)
Excess corporate cash and cash equivalents and short-term investments	465	319	146
Excess broker-dealer regulatory net capital	263	211	52
Liquid assets available for corporate investing and financing activities	\$728	\$530	\$198
The changes in liquid assets available for corporate investing and financing activities are summarized as follows (dollars in millions):			
Liquid assets available for corporate investing and financing activities as of September 30, 2015		\$530	
Plus: EBITDA ⁽¹⁾			1,167
Reduction of net capital requirements due to decrease in aggregate debits			81
Other changes in working capital and regulatory net capital			85
Less: Income taxes paid			(377)
Purchase of treasury stock			(319)
Payment of cash dividends			(272)
Purchase of property and equipment			(78)
Interest paid			(46)
Purchase of treasury stock for income tax withholding on stock-based compensation			(30)
Payment for future treasury stock purchases under accelerated stock repurchase agreement			(9)
Change in net capital related to daily futures client cash sweep			(4)
Liquid assets available for corporate investing and financing activities as of June 30, 2016			\$728

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

Table of Contents

Loan Facilities

The following is a summary of our long-term debt and credit facilities.

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%

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 a portion of this exposure, we entered into fixed-for-variable interest rate swaps on the 2019 Notes and the 2025 Notes. Each fixed-for-variable interest rate swap has a notional amount of \$500 million and a maturity date matching the maturity date of the respective Senior Notes.

The interest rate swaps effectively change the fixed-rate interest on the 2019 Notes and 2025 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 and (b) 1.1022% for the swap on the 2025 Notes. As of June 30, 2016, the weighted average effective interest rate on the aggregate principal balance of the 2019 Notes and 2025 Notes was 2.39%.

TD Ameritrade Holding Corporation Credit Agreement – TD Ameritrade Holding Corporation (the "Parent") has access to a senior unsecured revolving credit facility in the aggregate principal amount of \$300 million (the "Parent Revolving Facility"). The maturity date of the Parent Revolving Facility is June 11, 2019. There were no borrowings outstanding under the Parent Revolving Facility as of June 30, 2016.

TD Ameritrade Clearing, Inc. Credit Agreement – TDAC has access to a senior unsecured revolving credit facility in the aggregate principal amount of \$300 million (the "TDAC Revolving Facility"). The maturity date of the TDAC Revolving Facility is June 11, 2019. There were no borrowings outstanding under the TDAC Revolving Facility as of June 30, 2016.

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

Borrower Subsidiary	Committed Facility	Uncommitted Facility ⁽¹⁾	Termination Date
TD Ameritrade Clearing, Inc.	\$700	\$300	March 1, 2022
TD Ameritrade, Inc.	\$50	\$300	March 1, 2022
TD Ameritrade Futures & Forex LLC	\$13.5	N/A	March 29, 2020

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

There were no borrowings outstanding under any of the intercompany credit agreements as of June 30, 2016.

Stock Repurchase Programs

On October 20, 2011, our board of directors authorized the repurchase of up to 30 million shares of our common stock. During the first half of fiscal 2016, we completed the October 20, 2011 stock repurchase authorization by repurchasing the remaining 7.9 million shares at a weighted average purchase price of \$29.42 per share. From the inception of this stock repurchase authorization through its completion in March 2016, we repurchased a total of 30 million shares at a weighted average purchase price of \$29.19 per share.

On November 20, 2015, our board of directors authorized the repurchase of up to an additional 30 million shares of our common stock. During the third quarter of fiscal 2016, we repurchased approximately 1.7 million shares under this authorization at a weighted average purchase price of \$29.64 per share. As of June 30, 2016, we had approximately 27.2 million shares remaining on the stock repurchase authorization.

Table of Contents

Cash Dividends

We declared a \$0.17 per share quarterly cash dividend on our common stock during each quarter of fiscal 2016. We paid \$272 million in quarterly cash dividends during the first nine months of fiscal 2016. We expect to pay the fourth quarter dividend of \$89 million on August 18, 2016.

CONTRACTUAL OBLIGATIONS

The following item constitutes a material change in our contractual obligations outside the ordinary course of business since September 30, 2015:

Effective May 10, 2016, TD Ameritrade Services Company, Inc., one of our indirect and wholly-owned subsidiaries, entered into a construction agreement with AP Gulf States Inc., to construct our Regional Business Center in Southlake, Texas. The construction agreement establishes costs of up to approximately \$125 million for the core and shell building work. Completion of the work to be performed under the agreement is expected by November 2017.

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 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" under Note 7 – COMMITMENTS AND CONTINGENCIES and "Insured Deposit Account Agreement" under Note 13 – RELATED PARTY TRANSACTIONS. The IDA agreement accounts for a significant percentage of our net revenues (28% of our net revenues for the first nine months of fiscal 2016) and enables our clients to invest in an FDIC-insured deposit product without the need for the Company to establish the significant levels of capital that would be required to maintain our own bank charter.

WEBSITE AND SOCIAL MEDIA DISCLOSURE

From time to time, the Company may use its website and/or Twitter as distribution channels of material information. Financial 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/TDAmeritrade>. Website links provided in this report, although correct when published, may change in the future. We make available free of charge on our website 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.

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.

Table of Contents

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 insured deposit account ("IDA") arrangement with TD Bank USA, N.A. and TD Bank, N.A. 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 our earning a larger net interest spread. Conversely, a falling interest rate environment generally results in our earning a smaller net interest spread.

Our most prevalent form of interest rate risk is referred to as "gap" risk. This risk occurs when the interest rates we earn on our assets change at a different frequency or amount than the interest rates we pay on our 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 our interest-earning assets with that of our interest-bearing liabilities. We currently seek to maintain a consolidated duration of interest-sensitive assets, including IDA assets, within a range of 1.75 to 2.75 years. As of June 30, 2016, our consolidated duration was 2.1 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 the IDA arrangement. 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 the IDA arrangement 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, 2016 indicate that a gradual 1% (100 basis points) increase in interest rates over a 12-month period would result in a range of approximately \$105 million to \$240 million higher 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. The high end of the range assumes no increases in payment rates on client cash balances and full increases to interest rates charged on client margin balances. A gradual 1% (100 basis points) decrease in interest rates over a 12-month period would result in approximately \$59 million lower pre-tax income. The results of the simulations reflect the fact that short-term interest rates remain at historically low levels despite the increase in the federal funds target range to 0.25% to 0.50% as directed by the Federal Open Markets Committee in December 2015.

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, 2016. Management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of June 30, 2016.

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 7 – COMMITMENTS AND CONTINGENCIES – "Legal and Regulatory Matters" under Item 1, Financial Statements – Notes to Condensed Consolidated Financial Statements.

Table of Contents

Item 1A. – Risk Factors

In addition to the other information set forth in this report, you should carefully consider the following and the factors discussed under Item 1A— "Risk Factors" in our annual report on Form 10-K for the year ended September 30, 2015, which could materially affect our business, financial condition or future results of operations. The risks described in this Form 10-Q and 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.

On December 4, 2013, we entered into amendment no. 5 to the stockholders agreement among TD Ameritrade Holding Corporation, The Toronto-Dominion Bank ("TD") and certain members of the Ricketts family and related parties. Among other provisions, amendment no. 5 provided that effective January 24, 2016, the Ricketts parties ceased to be subject to or have rights under the stockholders agreement. The risk factors presented below have been updated to reflect the termination of the Stockholders Agreement with respect to the Ricketts parties pursuant to amendment no. 5 and should be considered in addition to the other risk factors disclosed in our Form 10-K for the fiscal year ended September 30, 2015. There have been no other material changes from the risk factors disclosed in the Company's Form 10-K for the fiscal year ended September 30, 2015.

Risk Factors Relating to Owning Our Stock

The market price of our common stock has experienced, and may continue to experience, substantial volatility. Our common stock, and the U.S. securities markets in general, can experience significant price fluctuations. The market prices of securities of financial services companies, in particular, have been especially volatile. The price of our common stock could decrease substantially. Among the factors that may affect our stock price are the following: speculation in the investment community or the press about, or actual changes in, our competitive position, organizational structure, executive team, operations, financial condition, financial reporting and results, effectiveness of cost reduction initiatives, or strategic transactions; the announcement of new products, services, acquisitions, or dispositions by us or our competitors; sales of a substantial number of shares of our common stock by TD and J. Joe Ricketts, our founder, certain members of his family and trusts held for their benefit, who have registration rights covering approximately 223 million shares and 60 million shares, respectively, of our common stock; and increases or decreases in revenue or earnings, changes in earnings estimates by the investment community, changes in the interest rate environment or in market expectations regarding the interest rate environment and variations between estimated financial results and actual financial results.

Changes in the stock market generally or as it concerns our industry, as well as geopolitical, economic, and business factors unrelated to us, may also affect our stock price.

Because the market price of our common stock can fluctuate significantly, we could become the object of securities class action litigation, which could result in substantial costs and a diversion of management's attention and resources and could have a material adverse effect on our business and the price of our common stock.

TD exercises significant influence over TD Ameritrade.

As of June 30, 2016, TD owned approximately 42% of our outstanding common stock. As a result, TD will generally have the ability to significantly influence the outcome of any matter submitted to a vote of our stockholders and therefore through its significant share ownership in TD Ameritrade, TD may have the power, subject to applicable law, to significantly influence actions that might be favorable to TD, but not necessarily favorable to our other stockholders.

The stockholders agreement provides that TD may designate five of the twelve members of our board of directors, subject to adjustment based on TD's ownership positions in TD Ameritrade. As of June 30, 2016, based on its ownership positions, TD has the right to designate five members of our board of directors, subject to TD's irrevocable waiver of its right to designate one of its directors, which accommodated the election of Tim Hockey as a member of the board of directors concurrent with his employment as president of the Company effective January 2, 2016. This waiver will expire at the first to occur of (1) the cessation of employment of Mr. Hockey by the Company, (2) the effective date of the resignation from the board of the current chief executive officer, or (3) October 1, 2016, at which time TD will have the right to designate the full number of directors provided for in the stockholders agreement.

Accordingly, TD is able to significantly influence the outcome of all matters that come before our board.

TD is permitted under the stockholders agreement to exercise voting rights on up to 45% of our outstanding shares of common stock until termination of the stockholders agreement (which will occur no later than January 24, 2021). If our stock repurchases cause TD's ownership percentage to exceed 45%, TD is required to use reasonable efforts to sell or dispose of such excess stock, subject to TD's commercial judgment as to the optimal timing, amount and method of sales with a view to maximizing proceeds from such sales. TD has no absolute obligation to reduce its ownership percentage to 45% by the termination of the stockholders

Table of Contents

agreement. However, prior to and following the termination of the stockholders agreement, TD is required to vote any such excess stock on any matter in the same proportions as all the outstanding shares of stock held by holders other than TD and its affiliates are voted. In no event may TD Ameritrade repurchase shares of its common stock that would result in TD's ownership percentage exceeding 47%. There is no restriction on the number of shares TD may own following the termination of the stockholders agreement.

The ownership position and governance rights of TD could also discourage a third party from proposing a change of control or other strategic transaction concerning TD Ameritrade. As a result, our common stock could trade at prices that do not reflect a "takeover premium" to the same extent as do the stocks of similarly situated companies that do not have a stockholder with an ownership interest as large as TD's ownership interest.

The terms of the stockholders agreement, our charter documents and Delaware law could inhibit a takeover that stockholders may consider favorable.

Provisions in the stockholders agreement between TD and the Company, our certificate of incorporation and bylaws and Delaware law will make it difficult for any party to acquire control of us in a transaction not approved by the requisite number of directors. These provisions include:

- the presence of a classified board of directors;
- the ability of the board of directors to issue and determine the terms of preferred stock;
- advance notice requirements for inclusion of stockholder proposals at stockholder meetings; and
- the anti-takeover provisions of Delaware law.

These provisions could delay or prevent a change of control or change in management that might provide stockholders with a premium to the market price of their common stock.

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, 2016 – April 30, 2016	41,674	\$ 31.43	—	28,864,747
May 1, 2016 – May 31, 2016	—	\$ —	—	28,864,747
June 1, 2016 – June 30, 2016	1,666,386	\$ 29.64	1,666,386	27,198,361
Total – Three months ended June 30, 2016	1,708,060	\$ 29.68	1,666,386	27,198,361

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 2016.

During the quarter ended June 30, 2016, 41,674 shares were repurchased from employees for income tax withholding in connection with distributions of stock-based compensation.

Table of Contents

Item 6. – Exhibits

- 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)
- 10.1 Construction agreement between TD Ameritrade Services Company, Inc. and AP Gulf States Inc., effective May 10, 2016 (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on May 16, 2016)
- 10.2 Form of Restricted Stock Unit Agreement for Employees
- 10.3 Form of Restricted Stock Unit Agreement for Non-employee Directors
- 15.1 Awareness Letter of Independent Registered Public Accounting Firm
- 31.1 Certification of Fredric J. Tomczyk, 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

101.CAL XBRL Taxonomy Extension Calculation

101.LAB XBRL Taxonomy Extension Label

101.PRE XBRL Taxonomy Extension Presentation

101.DEF XBRL Taxonomy Extension Definition

50

Table of Contents

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 5, 2016

TD Ameritrade Holding Corporation
(Registrant)

By: /s/ FREDRIC J. TOMCZYK
Fredric J. Tomczyk
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)