



STATEMENT OF FINANCIAL CONDITION

TD Ameritrade Clearing, Inc.
(An Indirect Wholly Owned Subsidiary of TD Ameritrade
Holding Corporation)
SEC File Number: 8-16335
September 30, 2012
With Report of Independent Registered Public
Accounting Firm

Ernst & Young LLP

 **ERNST & YOUNG**

TD Ameritrade Clearing, Inc.
(An Indirect Wholly Owned Subsidiary of
TD Ameritrade Holding Corporation)

Statement of Financial Condition

September 30, 2012

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholder
TD Ameritrade Clearing, Inc.

We have audited the accompanying statement of financial condition of TD Ameritrade Clearing, Inc. (the Company) as of September 30, 2012. This statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement of financial condition based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition, assessing the accounting principles used and significant estimates made by management, and evaluating the overall statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of TD Ameritrade Clearing, Inc. at September 30, 2012, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

Chicago, Illinois
November 26, 2012

TD Ameritrade Clearing, Inc.
 (An Indirect Wholly Owned Subsidiary
 of TD Ameritrade Holding Corporation)

Statement of Financial Condition
(In Millions, Except Share and Per Share Amounts)

September 30, 2012

Assets

Cash and cash equivalents	\$	188
Cash and investments segregated and on deposit for regulatory purposes		3,898
Securities borrowed		924
Receivable from brokers, dealers, and clearing organizations		184
Receivable from clients – net of allowance for doubtful accounts of \$12		8,630
Receivable from affiliates		84
Other receivables – net of allowance for doubtful accounts of \$0.4		55
Securities owned, at fair value		124
Deferred income taxes, net		39
Other assets		2
Total assets	<u>\$</u>	<u>14,128</u>

Liabilities and stockholder's equity

Liabilities:

Securities loaned	\$	1,940
Payable to brokers, dealers, and clearing organizations		52
Payable to clients		10,530
Payable to affiliates		37
Accounts payable and accrued liabilities		120
Securities sold, not yet purchased, at fair value		3
Total liabilities		<u>12,682</u>

Stockholder's equity:

Common stock, \$10 par value, 20,000 shares authorized; 9,946 shares issued and outstanding		–
Additional paid-in capital		508
Retained earnings		938
Total stockholder's equity		<u>1,446</u>
Total liabilities and stockholder's equity	<u>\$</u>	<u>14,128</u>

See accompanying notes.

TD Ameritrade Clearing, Inc.
(An Indirect Wholly Owned Subsidiary
of TD Ameritrade Holding Corporation)

Notes to Statement of Financial Condition

September 30, 2012

1. Basis of Presentation and Nature of Operations

Basis of Presentation

TD Ameritrade Clearing, Inc. (the Company) is an indirect wholly owned subsidiary of TD Ameritrade Holding Corporation (the Parent) through the Company's immediate parent, TD Ameritrade Online Holdings Corp. (TDAOH). The Company evaluated subsequent events through November 26, 2012, the date on which the statement of financial condition was available to be issued.

Nature of Operations

The Company is a securities broker-dealer that provides trade execution and clearing services on a fully disclosed basis to TD Ameritrade, Inc., an indirect wholly owned subsidiary of the Parent. The Company is required to comply with all applicable rules and regulations of the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), and the various securities exchanges in which it maintains membership.

2. Significant Accounting Policies

Use of Estimates

The preparation of the statement of financial condition in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial condition. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers temporary, highly liquid investments with an original maturity of three months or less to be cash equivalents, except for amounts required to be segregated for regulatory purposes.

TD Ameritrade Clearing, Inc.
(An Indirect Wholly Owned Subsidiary
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Notes to Statement of Financial Condition (continued)

2. Significant Accounting Policies (continued)

Cash and Investments Segregated and on Deposit for Regulatory Purposes

Cash and investments segregated and on deposit for regulatory purposes consists primarily of qualified deposits in special reserve bank accounts for the exclusive benefit of clients under Rule 15c3-3 of the Securities Exchange Act of 1934 (the Exchange Act) and other regulations. Funds can be held in cash, reverse repurchase agreements, U.S. Treasury securities, and other qualified securities. Reverse repurchase agreements (securities purchased under agreements to resell) 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 are collateralized by U.S. Treasury securities and generally have a maturity of seven days.

The Company performs clearing services for TD Ameritrade, Inc., which requires TD Ameritrade, Inc. to maintain accounts with the Company. To allow TD Ameritrade, Inc. to classify its assets held by the Company as allowable assets in its computation of net capital, the Company computes a separate reserve requirement for Proprietary Accounts of Introducing Brokers (PAIB). The Company had no PAIB reserve requirement at September 30, 2012.

Securities Borrowed and Securities Loaned

Securities borrowed and securities loaned transactions are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require the Company to provide the counterparty with collateral in the form of cash. The Company receives collateral in the form of cash for securities loaned transactions. The related interest receivable from and the brokerage interest payable to broker-dealers are included in other receivables and in accounts payable and accrued liabilities, respectively, on the statement of financial condition.

Receivable from/Payable to Clients

Receivable from clients primarily consists of margin loans to securities brokerage clients, which are collateralized by client securities and carried at the amount receivable, net of an allowance for doubtful accounts that is primarily based on the amount of unsecured margin balances. Payable to clients primarily consists of client cash held in brokerage accounts and is carried at the amount of client cash on deposit.

TD Ameritrade Clearing, Inc.
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Notes to Statement of Financial Condition (continued)

2. Significant Accounting Policies (continued)

Securities Owned and Securities Sold, Not Yet Purchased

Securities owned and securities sold, not yet purchased are recorded on a trade-date basis and carried at fair value. Securities held for trading or investment purposes are included in securities owned on the statement of financial condition.

Income Taxes

The Company files a consolidated U.S. income tax return with the Parent on a calendar year basis, combined returns for state tax purposes where required, and separate state income tax returns where required. The Company determines and records income taxes as if it were a separate taxpayer, pursuant to a tax sharing agreement with the Parent. Deferred tax assets and liabilities are determined based on the difference between the statement of financial condition carrying amounts and tax bases of assets and liabilities using enacted tax rates expected to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be settled or realized. Uncertain tax positions are recognized if they are more likely than not to be sustained upon examination, based on the technical merits of the position. The amount of tax benefit recognized is the largest amount of benefit that is greater than 50% likely of being realized upon settlement.

Securities Transactions

Client securities trades are recorded on a settlement-date basis, with such trades generally settling within three business days after the trade date. Securities owned by clients, including those that collateralize margin or similar transactions, are not reflected in the accompanying statement of financial condition.

TD Ameritrade Clearing, Inc.
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Notes to Statement of Financial Condition (continued)

2. Significant Accounting Policies (continued)

Recently Adopted Accounting Pronouncements

On January 1, 2012, the Company adopted Accounting Standards Update (ASU) 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in ASU 2011-04 change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Some of the amendments clarify the intent of the Financial Accounting Standards Board (FASB) about the application of existing fair value measurement and disclosure requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The adoption of ASU 2011-04 did not have a material impact on the Company's statement of financial condition.

Recently Issued Accounting Pronouncements

In December 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities*. The amendments in ASU 2011-11 will enhance disclosures by requiring improved information about financial and derivative instruments that are either (1) offset (netting assets and liabilities) in accordance with Section 210-20-45 or Section 815-10-45 of the FASB Accounting Standards Codification (ASC) or (2) subject to an enforceable master netting arrangement or similar agreement. ASU 2011-11 is effective for annual periods beginning on or after January 1, 2013, and interim periods within those annual periods, and requires retrospective disclosures for comparative periods presented. Therefore, ASU 2011-11 will be effective for the Company's fiscal year beginning October 1, 2013. Adoption of ASU 2011-11 is not expected to have a material impact on the Company's statement of financial condition.

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 as of September 30, 2012 (in millions):

Reverse repurchase agreements	\$ 2,181
U.S. government debt securities	1,564
Cash in demand deposit accounts	153
Total	<u>\$ 3,898</u>

TD Ameritrade Clearing, Inc.
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Notes to Statement of Financial Condition (continued)

4. Receivable from and Payable to Brokers, Dealers, and Clearing Organizations

Amounts receivable from and payable to brokers, dealers, and clearing organizations are comprised of the following as of September 30, 2012 (in millions):

Receivable:	
Securities failed to deliver	\$ 7
Deposits with clearing organizations	176
Other broker-dealer receivables	<u>1</u>
Total	<u>\$ 184</u>

Payable:	
Securities failed to receive	\$ 49
Other broker-dealer payables	<u>3</u>
Total	<u>\$ 52</u>

5. Income Taxes

As of September 30, 2012, temporary differences between the statement of financial condition carrying amounts and tax bases of assets and liabilities arise from the allowance for doubtful accounts, stock-based compensation, prepaid expenses, certain accrued liabilities, a capital loss carryforward, unrealized gains and losses, and the federal impact of state uncertain tax positions.

Net deferred tax assets consist of \$38.9 million of deferred tax assets less \$0.2 million of deferred tax liabilities as of September 30, 2012.

The Company's income tax returns are subject to review and examination by federal, state, and local taxing authorities. The federal returns for 2009 through 2011 remain open under the statute of limitations. The years open to examination by state and local government authorities vary by jurisdiction, but the statute of limitations is generally three to four years from the date the tax return is filed.

As of September 30, 2012, accrued interest and penalties included in accounts payable and accrued liabilities was \$25 million.

TD Ameritrade Clearing, Inc.
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Notes to Statement of Financial Condition (continued)

6. Capital Requirements

The Company is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1 under the Exchange Act), administered by the SEC and 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. The Company computes net capital under the alternative method as permitted by Rule 15c3-1, which requires the Company 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.

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 5% of aggregate debit balances or less than 120% of its minimum dollar requirement. These net capital thresholds, which are specified in Exchange Act Rule 17a-11, are typically referred to as “early warning” net capital thresholds.

The following table summarizes the Company’s net capital and net capital requirements as of September 30, 2012 (dollars in millions):

<u>Net Capital</u>	<u>Required Net Capital (2% of Aggregate Debit Balances)</u>	<u>Net Capital in Excess of Required Net Capital</u>	<u>Net Capital in Excess of Early Warning Threshold (5% of Aggregate Debit Balances)</u>	<u>Ratio of Net Capital to Aggregate Debit Balances</u>
\$ 1,302	\$ 203	\$ 1,099	\$ 796	12.86%

7. Employee Benefit Plans

The Parent has a 401(k) and profit-sharing plan covering eligible employees of the Company, under which the Company’s annual profit-sharing contributions are determined at the discretion of the Parent’s Board of Directors. The Company also makes matching contributions pursuant to the plan document. The Company’s employees also participate in the Parent’s stock option and incentive plans.

TD Ameritrade Clearing, Inc.
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Notes to Statement of Financial Condition (continued)

8. Commitments and Contingencies

Lease Commitments

The Company leases facilities and certain office equipment on a month-to-month basis through an affiliated company.

Borrowing Arrangements

On June 28, 2011, the Company entered into a credit agreement consisting of a senior unsecured revolving credit facility in the aggregate principal amount of \$300 million (the Revolving Facility). The maturity date of the Revolving Facility is June 28, 2014.

The applicable interest rate under the Revolving Facility is calculated as a per annum rate equal to, at the option of the Company, (a) LIBOR plus an interest rate margin (LIBOR loans) or (b) the federal funds effective rate plus an interest rate margin (Fed Funds Rate loans). The interest rate margin ranges from 1.00% to 2.00% for both LIBOR loans and Fed Funds Rate loans, determined by reference to the Parent's public debt ratings. The Company is obligated to pay a commitment fee ranging from 0.125% to 0.30% on any unused amount of the Revolving Facility, determined by reference to the Parent's public debt ratings. As of September 30, 2012, the interest rate margin would have been 1.25% for both LIBOR loans and Fed Funds Rate loans, and the commitment fee was 0.15%, each determined by reference to the Parent's public debt ratings. There were no borrowings outstanding under the Revolving Facility as of September 30, 2012.

The Revolving Facility contains negative covenants that limit or restrict, subject to certain exceptions, the incurrence of liens, indebtedness of the Company, mergers, consolidations, change in nature of business, and the sale of all or substantially all of the assets of the Company. The Company is also required to maintain minimum tangible net worth and is required to maintain compliance with minimum regulatory net capital requirements. The Company was in compliance with all covenants under the Revolving Facility as of September 30, 2012.

TD Ameritrade Clearing, Inc.
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Notes to Statement of Financial Condition (continued)

8. Commitments and Contingencies (continued)

Legal and Regulatory Matters

The Company is subject to 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. A substantial adverse judgment or other unfavorable resolution of these matters could have a material adverse effect on the Company's statement of financial condition or could cause the Company significant reputational harm. Management believes the Company has adequate legal defenses with respect to these legal proceedings to which it is a defendant or respondent, and the outcome of these pending proceedings is not likely to have a material adverse effect on the statement of financial condition of the Company. However, the Company is unable to predict the outcome or the timing of the ultimate resolution of these matters or the potential losses, if any, that may result from these matters.

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. Management believes the outcome of any resulting actions will not be material to the Company's statement of financial condition. However, the Company is unable to predict the outcome or the timing of the ultimate resolution of these matters or the potential fines, penalties, or injunctive or other equitable relief, if any, that may result from these matters.

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 statement of financial condition could be significantly changed at a later date upon final determinations by taxing authorities.

General Contingencies

In the ordinary course of business, there are various contingencies that are not reflected in the statement of financial condition. These include the Company's client activities involving the execution, settlement, and financing of various client securities transactions. These activities may expose the Company to credit risk in the event the clients are unable to fulfill their contractual obligations.

TD Ameritrade Clearing, Inc.
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Notes to Statement of Financial Condition (continued)

8. Commitments and Contingencies (continued)

The Company's client securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to the client, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the client's account. In connection with these activities, the Company also 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. The risks associated with margin credit increase during periods of rapid market movements or in cases where collateral is concentrated and market movements occur. In the event the client fails to satisfy its obligations, the Company has the authority to purchase or sell financial instruments 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 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 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. TD Ameritrade, Inc. reimburses the Company for unsecured losses resulting from client margin activities.

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).

TD Ameritrade Clearing, Inc.
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Notes to Statement of Financial Condition (continued)

8. Commitments and Contingencies (continued)

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.

As of September 30, 2012, client excess margin securities of approximately \$12.0 billion and stock borrowings of approximately \$0.9 billion were available to the Company to utilize as collateral on various borrowings or for other purposes. The Company had loaned approximately \$1.9 billion and repledged approximately \$1.2 billion of that collateral as of September 30, 2012.

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 statement of financial condition for these guarantees.

See "Insured Deposit Account Agreement" in Note 10 for a description of a guarantee included in that agreement.

TD Ameritrade Clearing, Inc.
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Notes to Statement of Financial Condition (continued)

9. Fair Value Disclosures

FASB 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.

TD Ameritrade Clearing, Inc.
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Notes to Statement of Financial Condition (continued)

9. Fair Value Disclosures (continued)

The following table presents the Company's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis as of September 30, 2012 (in millions):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Assets				
Cash equivalents:				
Money market mutual funds	\$ 130	\$ –	\$ –	\$ 130
Investments segregated for regulatory purposes:				
U.S. government debt securities	–	1,564	–	1,564
Securities owned:				
U.S. government debt securities	–	122	–	122
Other	1	1	–	2
Subtotal – Securities owned	1	123	–	124
Total assets at fair value	<u>\$ 131</u>	<u>\$ 1,687</u>	<u>\$ –</u>	<u>\$ 1,818</u>
Liabilities				
Securities sold, not yet purchased:				
Equity securities	\$ 3	\$ –	\$ –	\$ 3

TD Ameritrade Clearing, Inc.
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Notes to Statement of Financial Condition (continued)

9. Fair Value Disclosures (continued)

There were no transfers between any levels of the fair value hierarchy during fiscal year 2012. The following table presents the changes in Level 3 assets measured at fair value on a recurring basis for the fiscal year ended September 30, 2012 (in millions):

	Securities Owned
	Money Market and Other Mutual Funds⁽¹⁾
Balance, September 30, 2011	\$ 1
Sale to TD Ameritrade, Inc., at fair value	(1)
Balance, September 30, 2012	\$ —

(1) These assets related to money market and other mutual funds managed by The Reserve, an independent mutual fund company, for which the net asset value has declined below \$1.00 per share and the funds are being liquidated.

There were no nonfinancial assets or liabilities measured at fair value during the fiscal year ended September 30, 2012.

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.

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Notes to Statement of Financial Condition (continued)

9. Fair Value Disclosures (continued)

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 because no significant pricing differences have been observed.

Fair Value of Financial Instruments Not Recorded at Fair Value

Cash and cash equivalents, securities borrowed/loaned, receivable from/payable to brokers, dealers, and clearing organizations, receivable from/payable to clients, receivable from/payable to affiliates, and other receivables are short-term in nature and, accordingly, are carried at amounts that approximate fair value. Cash and cash equivalents include cash and highly-liquid investments with an original maturity of three months or less (categorized as Level 1 of the fair value hierarchy). Securities borrowed/loaned, receivable from/payable to brokers, dealers, and clearing organizations, receivable from/payable to clients, receivable from/payable to affiliates, and other receivables 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, for which the carrying value approximates 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.

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Notes to Statement of Financial Condition (continued)

10. Related-Party Transactions

Allocated Costs from Affiliates Based on Expense Sharing Agreements

The Company is allocated costs from entities related by common ownership.

Clearing Agreement

The Company earns clearing fees from TD Ameritrade, Inc. for clearing services provided on behalf of introduced clients pursuant to the provisions of a clearing agreement. The Company also shares a portion of transaction fees, net interest, and other revenues with TD Ameritrade, Inc. pursuant to the revenue sharing provisions of the clearing agreement, for introducing and servicing these clients.

Income Taxes

The Company settles consolidated and combined current income tax payables and receivables with the Parent periodically, as amounts become due to or from the taxing authorities. Payable to affiliates on the statement of financial condition includes \$8 million of income taxes payable to the Parent as of September 30, 2012.

Transactions with The Toronto-Dominion Bank and Affiliates

The Toronto-Dominion Bank (TD) is an affiliate of the Parent, owning approximately 45.4% of the Parent's common stock as of September 30, 2012, of which 45% is permitted to be voted under the terms of the Stockholders Agreement among TD, the Parent, and certain other stockholders. 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.

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Notes to Statement of Financial Condition (continued)

10. Related-Party Transactions (continued)

Insured Deposit Account Agreement

TD Ameritrade, Inc., TD Ameritrade Trust Company (TDATC), an indirect wholly owned subsidiary of the Parent, and the Company are 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 Depository Institutions) make available to clients of TD Ameritrade, Inc. and TDATC FDIC-insured money market deposit accounts as either designated sweep vehicles or as non-sweep deposit accounts. TD Ameritrade, Inc. and TDATC provide marketing and support services for the Depository Institutions, and the Company acts as agent for the clients of TD Ameritrade, Inc. and as recordkeeper for the Depository Institutions, in each case with respect to the money market deposit accounts. In exchange for providing these services, the Depository Institutions pay TD Ameritrade, Inc., TDATC, and the Company, collectively, a fee based on the weighted average yield earned on the client IDA assets, less the actual interest paid to clients, a flat fee to the Depository Institutions of 25 basis points, and the cost of FDIC insurance premiums.

The IDA agreement has a term of five years beginning July 1, 2008, and is automatically renewable for successive five-year terms, provided that it may be terminated by any party upon two years' prior written notice. As of September 30, 2012, no party has exercised its termination rights. The fee earned on the IDA agreement is calculated based on two primary components: (a) the yield on fixed-rate 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, based on the monthly average rate for 30-day LIBOR. The agreement provides that, from time to time, TD Ameritrade, Inc. may request amounts and maturity dates for the fixed-rate investments in the IDA portfolio, subject to the approval of the Depository Institutions. For example, if TD Ameritrade, Inc. requests (and the Depository Institutions agree) that \$100 million of deposits should be invested in 5-year fixed rate investments, and on the day such investment is approved the prevailing fixed yield for the applicable 5-year, U.S. dollar, LIBOR-based swaps is 1.00%, then TD Ameritrade, Inc., TDATC, and the Company will collectively earn a gross fixed yield of 1.00% on that portion of the portfolio (before any deductions for interest paid to clients, the flat 25 basis point fee to the Depository Institutions, and the cost of FDIC insurance premiums). The interest rates paid to clients are set by the Depository Institutions, in consideration of TD Ameritrade, Inc.'s recommendations, and are not linked to any index. As of September 30, 2012, the IDA portfolio was comprised of approximately 92% fixed rate investments and 8% floating rate investments.

TD Ameritrade Clearing, Inc.
(An Indirect Wholly Owned Subsidiary
of TD Ameritrade Holding Corporation)

Notes to Statement of Financial Condition (continued)

10. Related-Party Transactions (continued)

In the event the fee computation results in a negative amount, TD Ameritrade, Inc., TDATC, and the Company must pay the Depository Institutions the negative amount. This effectively results in TD Ameritrade, Inc., TDATC, and the Company guaranteeing the Depository Institutions revenue of 25 basis points on the IDA agreement, plus the reimbursement of FDIC insurance premiums. The fee computation under the IDA agreement is affected by many variables, including the type, duration, principal balance, and yield of the investment portfolio at the Depository Institutions, the prevailing interest rate environment, the amount of client deposits, and the yield paid on client deposits. Because a negative IDA 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 fee calculation to result in a negative amount is remote. Accordingly, no contingent liability is carried on the statement of financial condition for the IDA agreement.

In addition, the Company has various other services agreements and transactions with TD and its affiliates.

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Notes to Statement of Financial Condition (continued)

10. Related-Party Transactions (continued)

Receivables from and Payables to Affiliates

The following table summarizes the classification and amount of receivables from and payables to affiliates on the statement of financial condition resulting from related-party transactions as of September 30, 2012 (in millions):

Assets		
Securities borrowed from TD and affiliates		<u>\$ 1</u>
Receivable from affiliates:		
Receivable from TD and affiliates	\$ 70	
Receivable from entities related by common ownership	<u>14</u>	
Total		<u>\$ 84</u>
Liabilities		
Securities loaned to TD and affiliates		<u>\$ 125</u>
Payable to affiliates:		
Payable to TD and affiliates	\$ 1	
Payable to entities related by common ownership	<u>36</u>	
Total		<u>\$ 37</u>

Receivables from and payables to TD Ameritrade, Inc. and TD affiliates resulting from client cash sweep activity are generally settled in cash the next business day. Securities borrowed and securities loaned are settled in accordance with the contractual terms. Other receivables from and payables to affiliates are generally settled in cash on a monthly basis.

11. Subsequent Event

On October 25, 2012, the Company paid a \$100 million cash dividend to TDAOH.

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