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SECURITIES AND EXCHANGE COMMISSION

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DIVISION OF MARKET REGULATION

ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

SEC FILE NUMBER
8-16335

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 10/01/2010 AND ENDING 09/30/2011  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER - DEALER:  
TD Ameritrade Clearing, Inc.

OFFICIAL USE ONLY
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

1005 North Ameritrade Place  
(No. and Street)  
Bellevue NE 68005  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

William J. Gerber (402) 827-8933  
(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Ernst & Young LLP  
(Name - if individual, state last, first, middle name)  
220 S 6th Minneapolis Minnesota 55402  
(Address) (City) (State) (Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).  
SEC 1410 (06-02)

*Handwritten mark*

OATH OR AFFIRMATION

I, William J. Gerber swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of TD Ameritrade Clearing, Inc. as of September 30, 2011, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

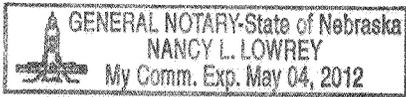
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*William J. Gerber*

Signature

Chief Financial Officer

Title



11-14-11

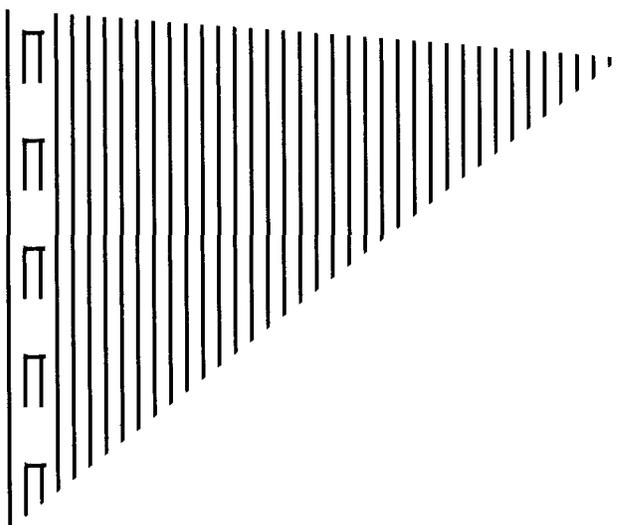
*Nancy L. Lowrey*

Notary Public

This report\*\* contains (check all applicable boxes):

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Cash Flows.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report (bound under separate cover).
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



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, 2011  
With Report of Independent Registered Public  
Accounting Firm

Ernst & Young LLP

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

Statement of Financial Condition

September 30, 2011

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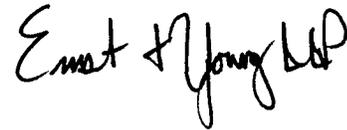
## Report of Independent Registered Public Accounting Firm

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, 2011. 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, 2011, in conformity with U.S. generally accepted accounting principles.



Minneapolis, Minnesota  
November 22, 2011

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

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

September 30, 2011

**Assets**

Cash and cash equivalents	\$ 350,861
Cash and investments segregated in compliance with federal regulations	2,519,249
Securities borrowed	495,680
Receivable from brokers, dealers, and clearing organizations	336,112
Receivable from clients – net of allowance for doubtful accounts of \$12,821	8,030,388
Receivable from affiliates	76,122
Other receivables – net of allowance for doubtful accounts of \$587	48,836
Securities owned, at fair value	203,515
Deferred income taxes, net	35,078
Other assets	1,734
Total assets	<u>\$ 12,097,575</u>

**Liabilities and stockholder's equity**

Liabilities:

Securities loaned	\$ 1,658,192
Payable to brokers, dealers, and clearing organizations	51,380
Payable to clients	8,863,286
Payable to affiliates	28,553
Accounts payable and accrued liabilities	113,699
Securities sold, not yet purchased, at fair value	4,709
Total liabilities	<u>10,719,819</u>

Stockholder's equity:

Common stock, \$10 par value, 20,000 shares authorized; 9,946 shares issued and outstanding	99
Additional paid-in capital	507,840
Retained earnings	869,817
Total stockholder's equity	<u>1,377,756</u>
Total liabilities and stockholder's equity	<u>\$ 12,097,575</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, 2011

**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 statement of financial condition includes material related-party transactions with affiliated companies. The Company evaluated subsequent events through November 22, 2011, 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 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 in compliance with federal regulations. Cash equivalents are recorded on the statement of financial condition at fair value based on quoted prices.

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

Notes to Statement of Financial Condition (continued)

**2. Significant Accounting Policies (continued)**

**Cash and Investments Segregated in Compliance with Federal Regulations**

Cash and investments segregated in compliance with federal regulations consist 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, fixed rate 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, 2011.

**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.

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

**2. Significant Accounting Policies (continued)**

**Receivable from/Payable to Clients**

Receivable from clients primarily consists of margin loans to brokerage clients, which are collateralized by client securities, and is 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.

**Securities Owned and Securities Sold, Not Yet Purchased**

Securities owned and securities sold, not yet purchased are carried at fair value. Proprietary 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 transactions are recorded on a settlement-date basis, with such transactions 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 Issued Accounting Pronouncements**

In May 2011, the Financial Accounting Standards Board (FASB) issued 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 FASB's intent 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. ASU 2011-04 is effective for annual periods beginning after December 15, 2011. Therefore, ASU 2011-04 will be effective for the Company's fiscal year beginning October 1, 2012. Adoption of ASU 2011-04 is not expected to have a material impact on the Company's statement of financial condition.

**3. 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, 2011 (in thousands):

Receivable:	
Securities failed to deliver	\$ 9,021
Deposits with clearing organizations	325,355
Other broker-dealer receivables	1,736
Total	<u>\$ 336,112</u>
Payable:	
Securities failed to receive	\$ 37,377
Clearing organizations	12,904
Other broker-dealer payables	1,099
Total	<u>\$ 51,380</u>

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

Notes to Statement of Financial Condition (continued)

**4. Income Taxes**

As of September 30, 2011, temporary differences between the statement of financial condition carrying amounts and tax bases of assets and liabilities arise from allowance for doubtful accounts, stock-based compensation, prepaid expenses, certain accrued liabilities, and the federal impact of state uncertain tax positions.

Deferred income taxes consist of the following as of September 30, 2011 (in thousands):

Deferred tax assets	\$ 35,171
Deferred tax liabilities	(93)
Net deferred tax assets	<u>\$ 35,078</u>

The Company did not record a valuation allowance against its deferred tax assets as of the beginning or the end of fiscal 2011, as the Company believes it is more likely than not that there is an ability to realize its deferred tax assets.

The Company's income tax returns are subject to review and examination by federal, state, and local taxing authorities. The federal returns for 2008 through 2010 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, 2011, accrued interest and penalties included in accounts payable and accrued liabilities was \$20.4 million.

**5. Capital Requirements**

The Company is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1 under the Exchange Act), 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 has elected to use the alternate method permitted by Rule 15c3-1, which requires that the Company maintain minimum net capital of the greater of \$1.5 million or 2% of aggregate debit balances arising from client transactions, as defined. At September 30, 2011, the Company had net capital of \$1.3 billion, which was \$1.1 billion in excess of the required net capital of \$199.3 million. The

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

**5. Capital Requirements (continued)**

Company's ratio of net capital to aggregate debit items was 12.68%. Under the alternate method, a broker-dealer may not repay any subordinated borrowings, pay cash dividends, or make any unsecured advances or loans to its parent or employees if such payment would result in net capital of less than 5% of aggregate debit balances or less than 120% of its minimum dollar net capital requirement.

Advances to affiliates, dividend payments, and other equity withdrawals are subject to certain limitations, notification provisions and other provisions of the SEC Uniform Net Capital Rule or other regulatory bodies.

**6. 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.

**7. Commitments and Contingencies**

**Lease Commitments**

The Company leases computer and office equipment and facilities 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.

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

**7. Commitments and Contingencies (continued)**

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 rating. 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 rating. As of September 30, 2011, 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 rating. There were no borrowings outstanding under the Revolving Facility as of September 30, 2011.

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, 2011.

**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.

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

**7. Commitments and Contingencies (continued)**

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.

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

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

**7. Commitments and Contingencies (continued)**

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).

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.

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

**7. Commitments and Contingencies (continued)**

The Company transacts in reverse repurchase agreements 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, 2011, client excess margin securities of approximately \$11.2 billion and stock borrowings of approximately \$0.5 billion were available to the Company to utilize as collateral on various borrowings or for other purposes. The Company had loaned approximately \$1.7 billion and repledged approximately \$1.9 billion of that collateral as of September 30, 2011.

**Guarantees**

The Company is a member of and provides guarantees to securities clearinghouses and exchanges. 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 9 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)

**8. Fair Value Disclosures**

The FASB Accounting Standards Codification (ASC) 820-10, *Fair Value Measurements and Disclosures*, 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, 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 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. This category includes 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.

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

**8. Fair Value Disclosures (continued)**

The following table presents the Company's fair value hierarchy for assets and liabilities measured on a recurring basis as of September 30, 2011 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
<b>Assets</b>				
Securities owned:				
Money market and other mutual funds	\$       —	\$       —	\$    1,098	\$    1,098
Equity securities	432	278	—	710
U.S. government debt securities	—	201,519	—	201,519
Municipal debt securities	—	152	—	152
Corporate debt securities	—	36	—	36
Total assets at fair value	<u>\$       432</u>	<u>\$  201,985</u>	<u>\$    1,098</u>	<u>\$  203,515</u>
<b>Liabilities</b>				
Securities sold, not yet purchased:				
Equity securities	\$    4,500	\$       55	\$       —	\$    4,555
Municipal debt securities	—	145	—	145
Corporate debt securities	—	9	—	9
Total liabilities at fair value	<u>\$    4,500</u>	<u>\$       209</u>	<u>\$       —</u>	<u>\$    4,709</u>

TD Ameritrade Clearing, Inc.  
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 TD Ameritrade Holding Corporation)

Notes to Statement of Financial Condition (continued)

**8. Fair Value Disclosures (continued)**

There were no transfers between any levels of the fair value hierarchy during fiscal year 2011. The following table presents the changes in Level 3 assets measured on a recurring basis for the fiscal year ended September 30, 2011 (in thousands):

	September 30, 2010	Purchases, Sales, Issuances, and Settlements, Net	September 30, 2011
<b>Assets</b>			
Securities owned:			
Money market and other mutual funds	\$ 919	\$ 179	\$ 1,098

There were no nonfinancial assets or liabilities measured at fair value during the fiscal year ended September 30, 2011.

**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* – The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, and credit spreads.

Level 3 Measurements

*Money Market and Other Mutual Funds* – The fair value of positions in money market and other mutual funds managed by The Reserve is estimated by management based on the underlying portfolio holdings data published by The Reserve.

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Notes to Statement of Financial Condition (continued)

**9. Related-Party Transactions**

**Allocated Costs from Affiliates**

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

**Clearing Agreement**

The Company earns clearing fees from TD Ameritrade, Inc. The Company allocates a portion of transaction fees, net interest, and other revenues to TD Ameritrade, Inc. pursuant to the revenue sharing provisions of a clearing agreement.

**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 \$3.9 million of income taxes payable to the Parent as of September 30, 2011.

**Transactions with The Toronto-Dominion Bank and Affiliates**

The Toronto-Dominion Bank (TD) is an affiliate of the Parent, owning approximately 44.6% of the Parent's common stock as of September 30, 2011. 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*

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

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Notes to Statement of Financial Condition (continued)

**9. Related-Party Transactions (continued)**

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 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. The agreement provides that the fee earned on the IDA agreement is calculated based on three primary components: (a) the actual yield earned on investments in place as of July 1, 2008, which were primarily fixed-income securities backed by Canadian government guarantees, (b) the yield on other 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, and (c) 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 other fixed-rate investments (component (b) above) in the IDA portfolio, subject to the approval of the Depository Institutions. As of September 30, 2011, the IDA portfolio was comprised of approximately 1% component (a) investments, 87% component (b) investments, and 12% component (c) investments.

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, credit quality, 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 and the fair value of the guarantee is not material. Accordingly, no contingent liability is carried on the statement of financial condition for the IDA agreement.

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Notes to Statement of Financial Condition (continued)

**9. Related-Party Transactions (continued)**

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

**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, 2011 (in thousands):

<b>Assets</b>		
Securities borrowed		\$ 182
Receivable from brokers, dealers, and clearing organizations		\$ 24
Receivable from affiliates:		
Receivable from TD and affiliates	\$ 75,841	
Receivable from entities related by common ownership	281	
Total		\$ 76,122
<b>Liabilities</b>		
Securities loaned		\$ 87,744
Payable to brokers, dealers, and clearing organizations		\$ 28
Payable to affiliates:		
Payable to TD and affiliates	\$ 860	
Payable to entities related by common ownership	27,693	
Total		\$ 28,553

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Notes to Statement of Financial Condition (continued)

**9. Related-Party Transactions (continued)**

Receivables from and payables to 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.

**10. Subsequent Event**

On November 10, 2011, the Company paid a \$100 million cash dividend to TDAOH.

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