

TD AMERITRADE HOLDING CORP
Form 10-K
November 16, 2018
Table of Contents

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

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR
p 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
For the fiscal
year ended
September 30,
2018
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 Identification No.)
organization)

200 South 108th Avenue,
Omaha, Nebraska 68154
(Address of principal executive offices) (Zip Code)
(800) 669-3900
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
Title of each class Name of each exchange on which
registered
Common Stock — \$0.01 The Nasdaq Stock Market LLC
par value Nasdaq Global Select Market
Securities registered pursuant to Section 12(g) of the Act:
(Title of class)

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities

Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act. Yes No

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 (or for such shorter period that the registrant was required to file such reports), 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 (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Smaller reporting company
Non-accelerated filer

Emerging growth company
(Do not check if a smaller reporting company)

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

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

The aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$33.3 billion computed by reference to the closing sale price of the stock on the Nasdaq Global Select Market on March 29, 2018, the last trading day of the registrant's most recently completed second fiscal quarter.

The number of shares of common stock outstanding as of November 1, 2018 was 562,369,568 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Definitive Proxy Statement relating to the registrant's 2019 Annual Meeting of Stockholders to be filed hereafter (incorporated into Part III hereof).

Table of ContentsTD AMERITRADE HOLDING CORPORATION
INDEX

	Page No.
<u>PART I</u>	
Item 1. <u>Business</u>	<u>3</u>
Item 1A. <u>Risk Factors</u>	<u>12</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>23</u>
Item 2. <u>Properties</u>	<u>23</u>
Item 3. <u>Legal Proceedings</u>	<u>23</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>24</u>
<u>PART II</u>	
Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>24</u>
Item 6. <u>Selected Financial Data</u>	<u>26</u>
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>27</u>
<u>Glossary of Terms</u>	<u>27</u>
<u>Financial Statement Overview</u>	<u>31</u>
<u>Acquisition of Scottrade</u>	<u>31</u>
<u>Critical Accounting Policies and Estimates</u>	<u>32</u>
<u>Results of Operations</u>	<u>33</u>
<u>Liquidity and Capital Resources</u>	<u>42</u>
<u>Off-Balance Sheet Arrangements</u>	<u>48</u>
<u>Contractual Obligations</u>	<u>49</u>
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>49</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>51</u>
<u>Report of Ernst & Young LLP</u>	<u>51</u>
<u>Consolidated Balance Sheets</u>	<u>52</u>
<u>Consolidated Statements of Income</u>	<u>53</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>54</u>
<u>Consolidated Statements of Stockholders' Equity</u>	<u>55</u>
<u>Consolidated Statements of Cash Flows</u>	<u>56</u>
<u>Notes to Consolidated Financial Statements</u>	<u>57</u>
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>104</u>
Item 9A. <u>Controls and Procedures</u>	<u>104</u>
Item 9B. <u>Other Information</u>	<u>106</u>
<u>PART III</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>106</u>
Item 11. <u>Executive Compensation</u>	<u>106</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>106</u>
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>107</u>
Item 14. <u>Principal Accounting Fees and Services</u>	<u>107</u>
<u>PART IV</u>	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	<u>107</u>
<u>Exhibit Index</u>	<u>108</u>

Signatures

112

2

Table of Contents

Unless otherwise indicated, references to "we," "us," "our," "Company," or "TD Ameritrade" mean TD Ameritrade Holding Corporation and its subsidiaries, and references to "fiscal" mean the Company's fiscal year ended September 30. References to the "parent company" mean TD Ameritrade Holding Corporation.

PART I

Item 1. Business

Form of Organization

The Company was established as a local investment banking firm in 1971 and began operations as a retail discount securities brokerage firm in 1975. The parent company is a Delaware corporation.

Operations

We are a leading provider of securities brokerage services and related technology-based financial services to retail clients and independent registered investment advisors ("RIAs"). We provide our services to individual retail investors and traders, and RIAs predominantly through the Internet, a national branch network and relationships with RIAs. We use our platform to offer brokerage services to retail investors and traders under a simple, low-cost commission structure and brokerage custodial services to RIAs.

We have been an innovator in electronic brokerage services since entering the retail securities brokerage business in 1975. We believe that we were the first brokerage firm to offer the following products and services to retail clients: touch-tone trading; trading over the Internet; mobile trading; unlimited, streaming, free real-time quotes; extended trading hours; direct access to market destinations; commitment on the speed of order execution and trading via chatbot and voice commands. Over the years the number of brokerage accounts, RIA relationships, average daily trading volume and total assets in client accounts have substantially increased. We have also built, and continue to invest in, a proprietary trade processing platform that is both cost-efficient and highly scalable, significantly lowering our operating costs per trade. In addition, we have made significant investments in building the TD Ameritrade brand.

Strategy

We intend to capitalize on the growth and consolidation of the retail brokerage industry in the United States and leverage our low-cost infrastructure to grow our market share and profitability. Our long-term growth strategy is to increase our market share of total assets in client accounts, while maintaining a leadership position in client trading, by providing superior offerings to retail investors and traders, and RIAs. We strive to enhance the client experience by providing asset management products and services, enhanced trading tools and capabilities and a superior, proprietary, single-platform system to support RIAs. The key elements of our strategy are as follows:

- Focus on brokerage services. We continue to focus on attracting retail investors and traders, and RIAs to our brokerage services. This focused strategy is designed to enable us to maintain our low operating cost structure while offering our clients outstanding products and services. We primarily route orders for execution of client trades on an agency, rather than a principal, basis. We maintain an inventory of fixed income securities to meet client demand.
- Provide a comprehensive investor solution. We continue to expand our suite of diversified investment products and services to best serve investors' needs. We help clients make investment decisions by providing investment tools, guidance, education and objective third-party research at levels that meet the needs of our clients.
- Continue to be a leader in the RIA industry. We provide RIAs with comprehensive brokerage and custody services supported by our robust integrated technology platform, customized personal service and practice management solutions.

Leverage our infrastructure to add incremental revenue. Through our proprietary technology, we are able to provide a robust online experience for retail investors and traders. Our low-cost, scalable systems provide speed, reliability and quality trade execution services for clients. The scalable capacity of our trading system

Table of Contents

allows us to process a significant number of additional transactions while incurring minimal additional fixed costs.

Continue to be a low-cost provider of quality services. We achieve low operating costs per trade by creating economies of scale, utilizing our proprietary transaction-processing systems, continuing to automate processes and locating much of our operations in low-cost geographical areas. This low fixed-cost infrastructure provides us with significant financial flexibility. In addition, our bank deposit account arrangements with The Toronto-Dominion Bank ("TD") and other third-party financial institutions enable 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.

Continue to differentiate our offerings through innovative technologies and service enhancements. We have been an innovator in our industry for over 40 years. We continually strive to provide our clients with the ability to customize their investing and trading experience. We provide our clients greater choice by offering features and functionality to meet their specific needs.

Leverage the TD Ameritrade brand. We believe that we have a superior brand identity and that our advertising has established TD Ameritrade as a leading brand in the retail brokerage market.

Continue to evaluate opportunities for growth through acquisitions. When evaluating potential acquisitions, we look for transactions that will give us operational leverage, technological leverage, increased market share or other strategic opportunities.

On September 18, 2017, we completed our acquisition of the brokerage business of Scottrade Financial Services, Inc. ("Scottrade"), a Delaware corporation. The transaction combined highly complementary franchises and added significant scale to our retail business with the addition of approximately 3.5 million funded client accounts, extended our leadership in trading, and expanded the size of our branch network. For additional information regarding this acquisition, see Note 2 - Business Acquisition under Item 8. Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements.

Client Offerings

We deliver products and services aimed at providing a comprehensive, personalized experience for retail investors and traders, and independent RIAs. Our client offerings are described below:

Trading and Investing Platforms

tdameritrade.com Web Platform is our core offering for self-directed retail investors and traders. We offer a broad array of tools and services, including alerts, screeners, conditional orders and free fundamental third-party research. Modules such as streaming news, stock events, and account balances allow clients to stay well informed. Free planning tools are also provided, such as Portfolio Planner to efficiently create a bundle of securities to trade, invest and rebalance and Retirement Planner to assess retirement needs. Social Signals is a trading resource that pulls insights from Twitter and compiles them in one place. A variety of third-party research supports clients in evaluating potential investments. Dividend Income Estimator allows clients to calculate and visualize estimated dividend income for their current holdings, watch list positions and specific securities.

thinkorswim® is a downloadable desktop platform designed for advanced traders, featuring easy-to-use interfaces, elite-level trading and analytical tools for complex trading strategies. Clients who use thinkorswim trade a broad range of products including stock and stock options, index options, futures and futures options, foreign exchange and exchange-traded funds ("ETFs").

TD Ameritrade Mobile allows on-the-go investors and traders to trade and monitor accounts from web-enabled mobile devices with features such as alerts, research, streaming market commentary and the ability to deposit a check directly from a smartphone or tablet. Through our mobile apps, clients can interact with our agents through chat messaging capabilities to service their accounts. Access is available through the TD Ameritrade Mobile App, the more advanced TD Ameritrade Mobile Trader App or via a mobile browser at the TD Ameritrade Mobile Site.

Table of Contents

TD Ameritrade Institutional is a leading provider of comprehensive brokerage and custody services to more than 6,000 independent RIAs and their clients. Our advanced technology platform, coupled with personal support from our dedicated service teams, allows RIAs to grow and manage their practices more effectively and efficiently while optimizing time with clients. Additionally, TD Ameritrade Institutional provides a robust offering of products, programs and services. These services are all designed to help advisors build their businesses and help their clients meet their financial goals.

Other Offerings

TD Ameritrade Education offers a suite of investor education for stocks, options, income investing and portfolio management. TD Ameritrade Education offers free education to our clients primarily built around an investing method that is designed to teach investors, regardless of experience, how to approach the selection process for investment securities and actively manage their investment portfolios. Course offerings are accompanied by all-day webcasts on a variety of investing topics and live events for beginner, intermediate and advanced investors.

TD Ameritrade's Goal Planning sessions are a complimentary service where clients meet with a financial consultant and develop an investment plan, based on a variety of factors including personal goals, time to achieve goal, risk tolerance, assets and net worth. Clients learn how likely they are to achieve their goals and how hypothetical changes to their decisions could influence their plan.

Essential Portfolios is an automated, low-cost investing solution that uses advanced technology to help long-term investors pursue their financial goals, with access to five non-proprietary goal-oriented ETF portfolios. Our subsidiary, TD Ameritrade Investment Management, LLC ("TDAIM"), recommends an investment portfolio based on an investor's objective, time horizon and risk tolerance.

Selective Portfolios (formerly known as Amerinvest[®]) is an advisory service that develops portfolios of ETFs or mutual funds, along with cash and cash alternatives, to help long-term investors pursue their financial goals. Our subsidiary, TDAIM, recommends an investment portfolio based on an investor's objective, time horizon and risk tolerance.

Personalized Portfolios is a more sophisticated advisory service designed to create a customized portfolio of ETFs or mutual funds that aims to satisfy each client's unique goals - balancing digital elements and human touch from credentialed portfolio and investment professionals. Also powered by TDAIM, the portfolios are based on each investor's objectives, risk tolerance and time horizon.

AdvisorDirect[®] is a national referral service for investors who wish to engage the services of an independent RIA. AdvisorDirect refers interested investors to one or more independent RIAs that are unaffiliated with TD Ameritrade and that offer investment management and/or financial planning services to investors served by TD Ameritrade's branch offices. We strive to have all independent RIAs participating in AdvisorDirect meet or exceed TD Ameritrade's professional eligibility requirements.

TD Ameritrade Network is our broadcast network, offering real-time market news, insights and investor education. The network's programming features experienced journalists and financial professionals.

TD Ameritrade Corporate Services provides self-directed brokerage services to employees of corporations, either directly in partnership with the employer or through joint marketing relationships with third-party administrators, such as 401(k) providers and employee benefit consultants. Trust and custody services are also offered to a wide range of plan types through our subsidiary, TD Ameritrade Trust Company.

TD Ameritrade Singapore Pte. Ltd. and TD Ameritrade Hong Kong Ltd. enable retail investors in Singapore and Hong Kong to trade the U.S. markets by providing access to trading technology, low commission rates, free education and customer service. Clients can trade stocks, ETFs, options, futures, and options on futures using the thinkorswim trading platform and thinkorswim Mobile. TD Ameritrade Singapore Pte. Ltd. is licensed by the Monetary Authority of Singapore and TD Ameritrade Hong Kong Ltd. is licensed by the Securities and Futures Commission.

Table of Contents

Products and Services

We strive to provide the best value of retail brokerage services to our clients. The products and services available to our clients include:

• Common and preferred stock. Clients can purchase common and preferred stocks, American Depository Receipts and closed-end funds traded on any United States exchange or quotation system.

• Exchange-Traded Funds. ETFs are baskets of securities (stocks or bonds) that typically track recognized indices. They are similar to mutual funds, except that they trade on an exchange like stocks. Our ETF Market Center offers our clients approximately 300 commission-free ETFs from leading providers with Morningstar Associates, LLC research and ratings and diverse investment strategies. Trades in these ETFs are commission-free, provided the funds are held for 30 days or longer. Our website includes an ETF screener, along with independent research and commentary, to assist investors in their decision-making.

• Options. We offer a full range of option trades, including complex and multi-leg option strategies.

• Futures. We offer futures trades, as well as options on futures, in a wide variety of commodities, stock indices and currencies.

• Foreign exchange. We offer access to trading in over 75 different currency pairs.

• Mutual funds. Clients can compare and select from a portfolio of over 13,000 mutual funds from leading fund families, including a broad range of no-transaction-fee ("NTF") funds. Clients can also easily exchange funds within the same mutual fund family.

• Fixed income. We offer our clients access to a variety of Treasury, corporate, government agency and municipal bonds, as well as certificates of deposit.

• New and secondary issue securities. We offer primary and secondary offerings of fixed income securities, closed-end funds, common stock and preferred stock.

• Margin lending. We extend credit to clients who maintain margin accounts. Portfolio margin, which bases margin requirements on the net exposure of all positions in an account rather than just on individual positions, is also available for accounts with net liquidating values of at least \$125,000.

• Cash management services. Through third-party banking relationships, we offer FDIC-insured deposit accounts and money market mutual funds to our clients as cash sweep alternatives. Through these relationships, we also offer free standard checking, free online bill pay and ATM services with unlimited ATM fee reimbursements at any machine nationwide.

• Annuities. We offer access to a full range of competitively priced fixed and variable annuities provided by highly-rated insurance carriers.

Table of Contents

We earn commissions and transaction fees on client trades in common and preferred stock, ETFs, exchange-traded notes, closed-end funds, options, futures, foreign exchange, mutual funds, fixed income securities and annuities. Order routing revenue generated from payments or rebates received from market centers is a component of commissions and transaction fees. Margin lending, securities borrowed and loaned transactions and client cash generate net interest revenue. Cash management services generate bank deposit account fees. Fees earned from mutual funds, investment program fees and referrals generate investment product fee revenues. Other revenues include proxy income, solicit and tender fees and other fees charged for ancillary services provided to clients. The following table presents the percentage of net revenues contributed by each class of similar services during the last three fiscal years:

Class of Service	Percentage of Net Revenues					
	Fiscal Year Ended September 30,					
	2018		2017		2016	
Commissions and transaction fees	36.1	%	37.6	%	41.2	%
Bank deposit account fees	28.3	%	30.1	%	27.8	%
Net interest revenue	23.3	%	18.8	%	17.9	%
Investment product fees	10.2	%	11.5	%	11.3	%
Other revenues	2.1	%	2.0	%	1.8	%
Net revenues	100.0	%	100.0	%	100.0	%

We provide our clients with an array of channels to access our products and services. These include the Internet, our network of retail branches, mobile trading applications, interactive voice response and registered representatives via telephone.

Client Service and Support

We strive to provide the best client service in the industry as measured by: (1) speed of response time to telephone calls, (2) turnaround time responding to client inquiries and (3) client satisfaction with the account relationship.

We endeavor to optimize our client service by:

- Ensuring prompt response to client service calls through adequate staffing with properly trained and motivated personnel in our client service departments, a majority of whom hold the Series 7 license;
- Tailoring client service to the particular expectations of clients; and
- Expanding our use of technology to provide automated responses to the most typical inquiries generated in the course of clients' trading, investing and related activities.

We provide client service and support through the following means:

Websites. Our websites provide information on how to use our services, a variety of self-service capabilities and an in-depth education center that includes a selection of online investing courses. Clients also have access to a virtual agent that enables them to ask questions about our products, tools and services, as well as access to live agents through chat capabilities.

Branches. We offer a nationwide network of retail branch offices, with more than 360 retail branches located in 48 states and the District of Columbia.

Email. Clients are encouraged to use email to contact our client service representatives. Our operating standards require a response within 24 hours of receipt of the email; however, we strive to respond within four hours after receiving the original message.

Telephone. For clients who choose to call or whose inquiries necessitate calling one of our client service representatives, we provide a toll-free number that connects to advanced call handling systems. These systems provide automated answering and directing of calls to the proper department. Our systems also allow linkage between caller identification and the client database to give the client service representative

Table of Contents

immediate access to the client's account data when the call is received. Client service representatives are available 24 hours a day, seven days a week.

TTY services for the hearing impaired. To ensure effective communication in connection with the provision of financial services, we provide sign language and oral interpreters and/or other auxiliary aids and services free of charge for the hearing impaired.

- Mobile app. Support on our TD Ameritrade Mobile Trader App allows clients to text with a trading specialist for immediate answers to their questions or share their screen for help with navigating the app.

Technology and Information Systems

Our technological capabilities and systems are central to our business and are critical to our goal of providing the best execution at the best value to our clients. Our operations require reliable, scalable systems that can handle complex financial transactions for our clients with speed and accuracy. We maintain sophisticated and proprietary technology that automates traditionally labor-intensive securities transactions. Our ability to effectively leverage and adopt new technology to improve our services is a key component of our success.

We continue to make investments in technology and information systems. We have spent a significant amount of resources to increase capacity and improve speed, reliability and security. To provide for system continuity during potential power outages, we have equipped our data centers with uninterruptible power supply units and back-up generators.

Advertising and Marketing

We intend to continue to grow and increase our market share by advertising online, on television, in print, on our own websites, and utilizing various forms of social media. We invest heavily in advertising programs designed to bring greater brand recognition to our services, and we intend to continue to aggressively advertise. From time to time, we may choose to increase our advertising to target specific groups of investors or to increase or decrease advertising in response to market conditions.

Advertising for retail clients is generally conducted through digital, search and social media, financial news networks and other television and cable networks. We also place print advertisements in a broad range of business publications. Advertising for institutional clients is significantly less than for retail clients and is generally conducted through highly-targeted media.

To monitor the success of our various marketing efforts, we utilize a media mix model that uses robust data sets to analyze the return on investment of our marketing channels. This model also supports decisions on spending levels and helps us determine the point at which we begin to experience diminishing returns. Additionally, our advanced data and analytics capabilities enable a more targeted, personalized experience for prospective and existing clients. How we share client information is disclosed in our privacy statement.

All of our securities brokerage-related communications with the public are regulated by the Financial Industry Regulatory Authority ("FINRA"). All of our futures and foreign exchange brokerage-related communications with the public are regulated by the National Futures Association ("NFA").

Clearing Operations

Our subsidiary, TD Ameritrade Clearing, Inc. ("TDAC"), provides clearing and execution services for our securities brokerage business. Clearing services include the confirmation, receipt, settlement, delivery and record-keeping functions involved in processing securities transactions. TDAC provides the following back office functions:

• Maintaining client accounts;

- Extending credit in a margin account to the client;

• Engaging in securities lending and borrowing transactions;

• Settling securities transactions with clearinghouses such as The Depository Trust & Clearing Corporation and The Options Clearing Corporation;

• Settling commissions and transaction fees;

Table of Contents

Preparing client trade confirmations and statements;
Performing designated cashiering functions, including the delivery and receipt of funds and securities to or from the client;
Possession, control and safeguarding of funds and securities in client accounts;
Processing cash sweep transactions to and from bank deposit accounts and money market mutual funds;
Transmitting tax accounting information to the client and to the applicable tax authority; and
Forwarding prospectuses, proxy materials and other shareholder information to clients.
We contract with external providers for futures clearing. We also contract with an external provider to facilitate foreign exchange trading for our clients.

Competition

We believe that the principal determinants of success in the retail brokerage market are brand recognition, size of client base and client assets, ability to attract new clients and client assets, client trading activity, efficiency of operations, technology infrastructure and advancements and access to financial resources. We also believe that the principal factors considered by clients in choosing a brokerage firm are reputation, client service quality, price, convenience, product offerings, quality of trade execution, platform capabilities, innovation and overall value. Based on our experience, focus group research and the success we have enjoyed to date, we believe that we presently compete successfully in each of these categories.

The market for brokerage services, particularly electronic brokerage services, continues to evolve and is highly competitive. We experience significant competition and expect this competitive environment to continue. We encounter direct competition from numerous other brokerage firms, many of which provide online brokerage services. These competitors include E*TRADE Financial Corporation, The Charles Schwab Corporation and Fidelity Investments. We also encounter competition from the broker-dealer affiliates of established full-commission brokerage firms, such as Merrill Lynch and Morgan Stanley, as well as from banks, mutual fund sponsors, online wealth management services (including so-called "robo-advisors") and other financial institutions and organizations, some of which provide online brokerage services.

Regulation

The securities, futures and foreign exchange industries are subject to extensive regulation under federal and state law. Our broker-dealers, TD Ameritrade, Inc. and TDAC, are required to register with the U.S. Securities and Exchange Commission ("SEC") and to be members of FINRA and the Municipal Securities Rulemaking Board ("MSRB"). Our futures commission merchant ("FCM") and forex dealer member ("FDM") subsidiary, TD Ameritrade Futures & Forex LLC ("TDAFF"), is registered with the Commodity Futures Trading Commission ("CFTC") and is a member of, and the corresponding services functions are regulated by, the NFA. Our broker-dealer subsidiaries are subject to the requirements of the Securities Exchange Act of 1934 (the "Exchange Act") relating to broker-dealers, including, among other things, minimum net capital requirements under the SEC Uniform Net Capital Rule (Rule 15c3-1), best execution requirements for client trades under SEC guidelines and FINRA rules and segregation of client funds under the SEC Customer Protection Rule (Rule 15c3-3), administered by the SEC and FINRA. TDAFF is subject to regulations under the Commodity Exchange Act, administered by the CFTC and NFA, including CFTC Regulations 1.17 and 5.7, which require the maintenance of minimum adjusted net capital, and CFTC Regulation 1.20, which requires segregation of client funds.

Net capital rules are designed to protect clients, counterparties and creditors by requiring a broker-dealer, an FCM or an FDM to have sufficient liquid resources available to satisfy its financial obligations. Net capital is a measure of a broker-dealer's, an FCM's or an FDM's readily available liquid assets, reduced by its total liabilities other than approved subordinated debt. Under the Uniform Net Capital Rule, 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 below required levels. Broker-dealers are required to provide notice to the SEC and FINRA if their net capital is below certain required levels. Likewise, a FCM and FDM, such as TDAFF, must provide notice to the CFTC if its adjusted net capital amounts are below required levels.

Table of Contents

Certain of our subsidiaries are also registered as investment advisors under the Investment Advisers Act of 1940. We are also subject to regulation in all 50 states, the District of Columbia and Puerto Rico, including registration requirements. TD Ameritrade Trust Company is chartered in the state of Maine as a state-regulated non-depository trust company.

In its capacity as a securities clearing firm, TDAC is a member of The Depository Trust & Clearing Corporation ("DTCC") and The Options Clearing Corporation ("OCC"), each of which is registered as a clearing agency with the SEC. As a member of these clearing agencies, TDAC is required to comply with the rules of such clearing agencies, including rules relating to possession or control of client funds and securities, margin lending and execution and settlement of transactions.

Margin lending activities are subject to limitations imposed by regulations of the Federal Reserve System and FINRA. In general, these regulations provide that, in the event of a significant decline in the value of securities collateralizing a margin account, we are required to obtain additional collateral from the borrower or liquidate security positions. We are subject to a number of state, federal and foreign laws applicable to companies conducting business on the Internet that address client privacy, system security and safeguarding practices and the use of client information. For additional, important information relating to government regulation, please review the information set forth under the heading "Risk Factors Relating to the Regulatory and Legislative Environment" in Item 1A — Risk Factors.

Risk Management

Our business activities expose us to various risks. Identifying and measuring our risks is critical to our ability to manage risk within acceptable tolerance levels in order to minimize the effect on our business, results of operations and financial condition.

Our management team is responsible for managing risk, and it is overseen by our board of directors, primarily through the board's Risk Committee. We use risk management processes and have policies and procedures for identifying, measuring and managing risks, including establishing threshold levels for our most significant risks. Our risk management, compliance, internal audit, and legal departments assist management in identifying and managing risks. Our management team's Enterprise Risk Committee ("ERC") is responsible for reviewing risk exposures and risk mitigation. Subcommittees of the ERC have been established to assist in identifying and managing specific areas of risk.

Our business exposes us to the following broad categories of risk:

Operational Risk — Operational risk is the risk of loss resulting from inadequate or failed internal processes or controls, human error or misconduct, systems and technology problems or from external events. It also involves compliance with regulatory and legal requirements. Operational risk is the most prevalent form of risk in our risk profile. We manage operational risk by establishing policies and procedures to accomplish timely and efficient processing, obtaining periodic internal control attestations from management and conducting internal audit reviews to evaluate the effectiveness of internal controls.

Cyber Security Risk — Cyber security risk is the risk of a malicious technological attack intended to impact the confidentiality, availability, or integrity of our systems and data, including sensitive client data. Our technology and security teams rely on a layered system of preventive and detective technologies, practices, and policies to detect, mitigate, and neutralize cyber security threats. Cyber-attacks can also result in financial and reputational risk.

Market Risk — Market risk is the risk of loss resulting from adverse movements in market factors, such as asset prices, foreign exchange rates and interest rates. Our market risk related to asset prices is mitigated by our routing for execution of client trades primarily on an agency, rather than a principal, basis and our maintenance of fixed-income securities to meet client requirements. Interest rate risk is our most prevalent form of market risk. For more information about our interest rate risk and how we manage it, see Item 7A — Quantitative and Qualitative Disclosures About Market Risk.

Table of Contents

Credit Risk — Credit risk is the risk of loss resulting from failure of obligors to honor their payments. Our exposure to credit risk mainly arises from client margin lending and leverage activities, securities lending activities and other counterparty credit risks. For more information about our credit risk and how we manage it, see Item 7A – Quantitative and Qualitative Disclosures About Market Risk.

Liquidity Risk — Liquidity risk is the risk of loss resulting from the inability to meet current and future cash flow needs. We actively monitor our liquidity position at the holding company and at the broker-dealer and FCM/FDM subsidiary levels. For more information, see Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources.

Strategic Risk — Strategic risk is the risk of loss arising from ineffective business strategies, improper implementation of business strategies, or lack of responsiveness to changes in the business and competitive environment. Our executive management is responsible for establishing an appropriate corporate strategy intended to create value for stockholders, clients and employees, with oversight by our board of directors. Our management is responsible for defining the priorities, initiatives and resources necessary to execute the strategic plan, the success of which is regularly evaluated by the board of directors.

Reputational Risk — Reputational risk is the risk arising from possible negative perceptions, whether true or not, of the Company among our clients, counterparties, stockholders, suppliers, employees and regulators. The potential for either enhancing or damaging our reputation is inherent in almost all aspects of business activity. We manage this risk through our commitment to a set of core values that emphasize and reward high standards of ethical behavior, maintaining a culture of compliance and by being responsive to client and regulatory requirements.

Risk is inherent in our business, and therefore, despite our efforts to manage risk, there can be no assurance that we will not sustain unexpected losses. For a discussion of the factors that could materially affect our business, financial condition or future results of operations, see Item 1A — Risk Factors.

Intellectual Property Rights

Our success and ability to compete are significantly dependent on our intellectual property. We rely on copyright, trade secret, trademark, domain name, patent and contract laws to protect our intellectual property and have utilized the various methods available to us, including filing applications for patents and trademark registrations with the United States Patent and Trademark Office and entering into written licenses and other technology agreements with third parties. Our patented and patent pending technologies include stock indexing and investor education technologies, as well as innovative trading and analysis tools. Our trademarks include both our primary brand, TD Ameritrade (including the "TD" name through trademark license agreement with The Toronto-Dominion Bank), as well as brands for other products and services. A substantial portion of our intellectual property is protected by trade secrets. The source and object code for our proprietary software is also protected using applicable methods of intellectual property protection and general protections afforded to confidential information. In addition, it is our policy to enter into confidentiality and intellectual property ownership agreements with our employees and confidentiality and noncompetition agreements with our independent contractors and business partners and to control access to and distribution of our intellectual property.

Employees

As of September 30, 2018, we had 9,183 full-time equivalent employees. None of our employees is covered by a collective bargaining agreement. We believe that our relations with our employees are good.

Financial Information about Segments and Geographic Areas

We primarily operate in the securities brokerage industry and have no other reportable segments. Substantially all of our revenues from external clients for the fiscal years ended September 30, 2018, 2017 and 2016 were derived from our operations in the United States.

Websites and Social Media Disclosure

From time to time, the Company may use its website and/or Twitter as distribution channels of material information. The Company's Code of Business Conduct and Ethics, financial data and other important information regarding the Company is accessible through and posted on the Company's website at www.amtd.com and its Twitter account

Table of Contents

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

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the following factors which could materially affect our business, financial condition, future results of operations or stock price. Although the risks described below are those that we believe are the most significant, these are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently do not deem to be material also may materially affect our business, financial condition, future results of operations or stock price.

Risk Factors Relating to Our Business Operations

Economic conditions and other securities industry risks could adversely affect our business.

Substantially all of our revenues are derived from our securities brokerage business. Like other securities brokerage businesses, we are directly affected by economic, social and political conditions, broad trends in business and finance and changes in volume and price levels of securities transactions. Events in global financial markets in recent years resulted in substantial market volatility and increased client trading volume. However, any sustained downturn in general economic conditions or U.S. equity markets could result in reduced client trading volume and net revenues. Severe market fluctuations or weak economic conditions could reduce our trading volume and net revenues and have a material adverse effect on our profitability.

We have exposure to 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 FDIC-insured deposit account arrangements with TD Bank USA, N.A. and TD Bank N.A. and with other third-party financial institutions, which are subject to interest rate risk. Continued uncertainty resulting from U.S. fiscal and political matters, including concerns about federal, state and municipal debt levels, taxes, U.S. debt ratings, immigration policies and international conflicts, have impacted and may continue to impact the U.S. and global economic recovery. The direction and level of interest rates are important factors in our profitability.

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 assets change at a different frequency or amount than the interest rates we pay on liabilities. For example, in a low (but rising) interest rate environment, sharp increases in short-term interest rates could result in net interest spread compression if the yield paid on interest-bearing client balances were to increase faster than our earnings on interest-earning assets. If we are unable to effectively manage our interest rate risk, changes in interest rates could have a material adverse effect on our profitability.

Table of Contents

Our brokerage operations have exposure to liquidity risk.

Maintaining adequate liquidity is crucial to our brokerage operations, including key functions such as transaction settlement and margin lending. We are subject to cash deposit and collateral requirements with clearinghouses such as the DTCC and the OCC, which may fluctuate significantly from time to time based on the nature and size of our clients' trading activity. Our liquidity needs to support interest-earning assets are primarily met by client cash balances or financing created from our securities lending activities. A reduction of funds available from these sources may require us to seek other potentially more expensive forms of financing, such as borrowings on our revolving credit facilities. Our liquidity could be constrained if we are unable to obtain financing on acceptable terms, or at all, due to a variety of unforeseen market disruptions. Inability to meet our funding needs on a timely basis would have a material adverse effect on our business.

We are exposed to credit risk with clients and counterparties.

We extend margin credit and leverage to clients, which are collateralized by client cash and securities. We also borrow and lend securities in connection with our broker-dealer business. A significant portion of our net revenues is derived from interest on margin loans. By permitting clients to purchase securities on margin and exercise leverage with options and futures positions, we are subject to risks inherent in extending credit, especially during periods of rapidly declining markets in which the value of the collateral held by us could fall below the amount of a client's indebtedness. In addition, in accordance with regulatory guidelines, we collateralize borrowings of securities by depositing cash or securities with lenders. Sharp changes in market values of substantial amounts of securities and the failure by parties to the borrowing transactions to honor their commitments could have a material adverse effect on our revenues and profitability. We also engage in financial transactions with counterparties, including securities sold under agreements to repurchase, that expose us to credit losses in the event counterparties cannot meet their obligations.

Our clearing operations expose us to liability for errors in clearing functions.

Our broker-dealer subsidiary, TDAC, provides clearing and execution services for our securities brokerage business. Clearing and execution services include the confirmation, receipt, settlement and delivery functions involved in securities transactions. Clearing brokers also assume direct responsibility for the possession or control of client securities and other assets and the clearing of client securities transactions. However, clearing brokers also must rely on third-party clearing organizations, such as the DTCC and the OCC, in settling client securities transactions. Clearing securities firms, such as TDAC, are subject to substantially more regulatory control and examination than introducing brokers that rely on others to perform clearing functions. Errors in performing clearing functions, including clerical and other errors related to the handling of funds and securities held by us on behalf of clients, could lead to regulatory fines and civil penalties as well as losses and liability in related legal proceedings brought by clients and others.

A default by a large financial institution could adversely affect financial markets.

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships among the institutions. For example, increased centralization of trading activities through particular clearing houses, central agents or exchanges is occurring. This is driven by market forces and by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and similar laws in other jurisdictions, and it may increase our concentration of risk with respect to these entities. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, losses or defaults by other institutions. This is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing houses, clearing agencies, exchanges, banks and securities firms, with which we interact on a daily basis, and therefore could have a material adverse effect on our business.

Systems failures, delays and capacity constraints could harm our business.

We receive and process trade orders through a variety of electronic channels, including the Internet, mobile trading applications and our interactive voice response system. These methods of trading are heavily dependent on the integrity of the electronic systems supporting them. Our systems and operations are vulnerable to damage or interruption from human error, natural disasters, power loss, computer viruses, distributed denial of service

Table of Contents

("DDOS") attacks, spurious spam attacks, intentional acts of vandalism and similar events. It could take several hours or more to restore full functionality following any of these events. Extraordinary trading volumes could cause our computer systems to operate at an unacceptably slow speed or even fail. Extraordinary Internet traffic caused by DDOS, spam attacks or extreme market volatility could cause our website or other trading applications to be unavailable or slow to respond. While we have made significant investments to upgrade the reliability and scalability of our systems and added hardware to address extraordinary Internet traffic, there can be no assurance that our systems will be sufficient to handle such extraordinary circumstances. Slowness or unavailability may not impact all trading channels evenly, and some trading channels may be impacted while others are not. Social media and media reports may conflate one channel being unavailable with all channels being unavailable. We may not be able to project accurately the rate, timing or cost of any increases in our business or to expand and upgrade our systems and infrastructure to accommodate any increases in a timely manner. Systems failures and delays could occur and could cause, among other things, unanticipated disruptions in service to our clients, substantial losses to our clients, slower system response time resulting in transactions not being processed as quickly as our clients desire, decreased levels of client service and client satisfaction and harm to our reputation. We are also dependent on the integrity and performance of securities exchanges, clearing houses and other intermediaries to which client orders are routed for execution and settlement. Systems failures and constraints and transaction errors at such intermediaries could result in delays and erroneous or unanticipated execution prices, cause substantial losses for us and our clients and subject us to claims from our clients for damages. The occurrence of any of these events could have a material adverse effect on our business, financial condition and results of operations.

Further, a cybersecurity intrusion could occur and persist for an extended period of time without detection, and any investigation of a cybersecurity intrusion could require a substantial amount of time. During all this time we might not know the extent of the harm or how best to remediate it, and errors or omissions could be repeated or compounded before being discovered and remediated, all of which could aggravate the costs and consequences of the intrusion. As our business model relies heavily on our clients' use of their own personal computers, mobile devices and the Internet, our business and reputation could be harmed by security breaches of our clients and third parties. Computer viruses and other attacks on our clients' personal computer systems, home networks and mobile devices or against the third-party networks and systems of Internet and mobile service providers could create losses for our clients even without any breach in the security of our systems and could thereby harm our business and our reputation. As part of our asset protection guarantee, we may reimburse our clients for losses in their accounts caused by a breach of security of our clients' own computers (through no fault of the client). Such reimbursements may not be covered by applicable insurance and could have an adverse effect on our business, financial condition and results of operations. Failure to protect client data or prevent breaches of our information systems could expose us to liability or reputational damage.

We are dependent on information technology networks and systems to securely process, transmit and store electronic information and to communicate among our locations and with our clients and vendors. As the breadth and complexity of this infrastructure continue to grow, the potential risk of security breaches and cyber-attacks increases. Developing and enhancing new products and services, which is necessary for us to remain competitive, may involve the use or creation of new technologies, exposes us to cybersecurity and privacy risks that cannot be completely anticipated and increases the risk of security breaches and cyber-attacks. As a financial services company, we are continuously subject to cyber-attacks, DDOS and ransomware attacks, malicious code and computer viruses by activists, hackers, organized crime, foreign state actors and other third parties. Such breaches could lead to shutdowns or disruptions of our systems, account takeovers and unauthorized gathering, monitoring, misuse, loss, total destruction and disclosure of data and confidential information of ours, our clients, our employees or other third parties, or otherwise materially disrupt our or our clients' or other third parties' network access or business operations. In addition, vulnerabilities of our external service providers and other third parties could pose security risks to client information. The secure transmission of confidential information over public networks is also a critical element of our operations.

We, along with the financial services industry in general, have experienced losses related to clients' login and password information being compromised, generally caused by attacks capturing credentials directly from clients

themselves, through phishing attacks, clients' use of non-secure public computers or vulnerabilities of clients' private computers and mobile devices. In 2007, we discovered and eliminated unauthorized code from our computer systems that had allowed an unauthorized third party to retrieve client email addresses, names, addresses and phone numbers

Table of Contents

from an internal database. Following the incident, we incurred significant remediation costs. In addition, in 2013, Scottrade, which we acquired in September 2017, experienced a database breach. We are aware of subsequent attempts by other attackers to penetrate our systems using similar techniques and similar attacks against other financial institutions. Although we have taken steps to reduce the risk of such threats, our risk and exposure to a cyber-attack or related breach remains heightened due to the evolving nature of these threats, our plans to continue to implement mobile access solutions to serve our clients, our routine transmission of sensitive information to third parties, the current global economic and political environment, external extremist parties and other developing factors. If a cyber-attack or similar breach were to occur, we could suffer damage to our reputation and incur significant remediation costs and losses.

In providing services to clients, we manage, utilize and store sensitive and confidential client data, including personal data. As a result, we are subject to numerous laws and regulations designed to protect this information, such as U.S. federal and state laws and foreign regulations governing the protection of personally identifiable information. These laws and regulations are increasing in complexity and number, change frequently and sometimes conflict. If any person, including any of our employees, negligently disregards or intentionally breaches our established controls with respect to client data, or otherwise mismanages or misappropriates that data, we could be subject to significant monetary damages, regulatory enforcement actions, fines and/or criminal prosecution in one or more jurisdictions. Unauthorized disclosure of sensitive or confidential client data, whether through systems failure, employee negligence, fraud or misappropriation, could damage our reputation and cause us to lose clients. Similarly, unauthorized access to or through our information systems, whether by our employees or third parties, including a cyber-attack by third parties who may deploy viruses, worms or other malicious software programs, could result in negative publicity, significant remediation costs, legal liability, regulatory fines, financial responsibility under our asset protection guarantee to reimburse clients for losses in their accounts resulting from unauthorized activity in their accounts (through no fault of the client) and damage to our reputation and could have a material adverse effect on our results of operations. In addition, our liability insurance might not be sufficient in type or amount to cover us against claims related to security breaches, cyber-attacks and other related breaches.

We also face risk related to external fraud involving the misappropriation and use of clients' user names, passwords or other personal information to gain access to their accounts. This could occur from the compromise of clients' personal electronic devices or as a result of a data security breach at an unrelated company where clients' personal information is taken and then made available to fraudsters. This risk has grown in recent years due to the increased sophistication and activities of organized crime and other external parties, including foreign state-sponsored parties. Losses in client accounts reimbursed under our asset protection guarantee against unauthorized account activity (through no fault of the client) could have adverse impacts on our business, financial condition and results of operations.

Aggressive competition could reduce our market share and harm our financial performance.

The market for electronic brokerage services is continually evolving and is intensely competitive. The retail brokerage industry has experienced significant consolidation, which may continue in the future, and which may increase competitive pressures in the industry. Consolidation could enable other firms to offer a broader range of products and services than we do, or offer them at lower prices. There has been aggressive price competition in the industry, including various free trade offers, reduced trading commissions and higher interest rates paid on cash held in client accounts. We expect this competitive environment to continue in the future. We face direct competition from numerous retail brokerage firms, including E*TRADE Financial Corporation, The Charles Schwab Corporation and Fidelity Investments. We also encounter competition from the broker-dealer affiliates of established full-commission brokerage firms, such as Merrill Lynch and Morgan Stanley, as well as from banks, mutual fund sponsors, online wealth management services (including so-called "robo-advisors") and other financial institutions and organizations, some of which provide online brokerage services. Some of our competitors have greater financial, technical, marketing and other resources, offer a wider range of services and financial products, and have greater name recognition and a more extensive client base than we do. We believe that the general financial success of companies within the retail securities industry will continue to attract new competitors to the industry, such as software development companies, insurance companies, providers of online financial information and others. These companies may provide a more comprehensive suite of services than we do or offer services at lower prices. Increased

competition, including pricing pressure, could have a material adverse effect on our financial condition and results of operations.

15

Table of Contents

We will need to introduce new products and services and enhance existing products and services to remain competitive.

Our future success depends in part on our ability to develop and enhance our products and services. In addition, the adoption of new Internet, networking or telecommunications technologies or other technological changes could require us to incur substantial expenditures to enhance or adapt our services or infrastructure.

There are significant technical and financial costs and risks in the development of new or enhanced products and services, including the risk that we might be unable to effectively use new technologies, adapt our services to emerging industry standards or develop, introduce and market enhanced or new products and services. An inability to develop new products and services, or enhance existing offerings, could have a material adverse effect on our profitability.

Advisory services subject us to additional risks.

We provide investment advisory services to investors through our SEC-registered investment advisors, TD Ameritrade, Inc., TD Ameritrade Investment Management, LLC and TradeWise Advisors, Inc. ("TradeWise"). TD Ameritrade, Inc. offers AdvisorDirect,[®] a service that refers a client to an independent RIA. TD Ameritrade Investment Management, LLC recommends an investment portfolio, through Essential, Selective or Personalized Portfolios, based on an investor's objectives, time horizon and risk tolerance. TradeWise provides an option advisory service for self-directed investors. The risks associated with these investment advisory activities include those arising from possible conflicts of interest, unsuitable investment recommendations, inadequate due diligence, inadequate disclosure and fraud. Realization of these risks could lead to liability for client losses, regulatory fines, civil penalties and harm to our reputation and business.

We rely on external service providers to perform certain key functions.

We rely on a number of external service providers for certain key technology, processing, service and support functions. These include the services of other broker-dealers, market makers, exchanges and clearinghouses to execute and settle client orders. We contract with external providers for futures and foreign exchange clearing. External content providers provide us with financial information, market news, charts, option and stock quotes, research reports and other fundamental data that we offer to clients. These service providers face technological, operational and security risks of their own. Any significant failures by them, including improper use or disclosure of our confidential client, employee or company information, could interrupt our business, cause us to incur losses and harm our reputation.

There is no assurance that any external service providers will be able to continue to provide these services to meet our current needs in an efficient, cost-effective manner or that they will be able to adequately expand their services to meet our needs in the future. Some external service providers have assets that are important to the services they provide us located outside the United States, and their ability to provide these services is subject to risks from unfavorable political, economic, legal or other developments, such as social or political instability, changes in governmental policies or changes in laws and regulations.

An interruption in or the cessation of service by an external service provider as a result of systems failures, capacity constraints, financial constraints or problems, unanticipated trading market closures or for any other reason, and our inability to make alternative arrangements in a smooth and timely manner, if at all, could have a material adverse effect on our business, financial condition and results of operations.

Employee misconduct, which can be difficult to detect and deter, could harm our reputation and subject us to significant legal liability.

There have been a number of highly-publicized cases involving fraud or other misconduct by employees in the financial services industry. There is a risk that our employees could engage in misconduct that adversely affects our business. The precautions that we take to detect and deter this activity may not be effective if our employees engage in misconduct. If one or more of them were to improperly access, use or disclose confidential information or to engage in other misconduct, we could be subject to regulatory sanctions and suffer serious harm to our financial condition, reputation, current client relationships and ability to attract future clients.

Table of Contents

Risk Factors Relating to the Regulatory and Legislative Environment

Legislation has and may continue to result in changes to rules and regulations applicable to our business, which may negatively impact our business and financial results.

The Dodd-Frank Act, enacted in 2010, requires many federal agencies to adopt new rules and regulations applicable to the financial services industry and also calls for many studies regarding various industry practices. In particular, the Dodd-Frank Act gives the SEC discretion to adopt rules regarding standards of conduct for broker-dealers providing investment advice to retail customers.

The U.S. Department of Labor ("DOL") enacted regulations changing the definition of who is an investment advice fiduciary under the Employee Retirement Income Security Act of 1974 (ERISA) and how such advice can be provided to account holders in retirement accounts such as 401(k) plans and Individual Retirement Arrangements (IRAs). The DOL regulations deemed many of the investment, rollover and asset management recommendations from us to our clients regarding their retirement accounts fiduciary "investment advice" under ERISA. The U.S. Court of Appeals for the Fifth Circuit has vacated the DOL's conflict-of-interest rule in its entirety, and the DOL has announced a conditional enforcement policy pending the issuance of further guidance and may take further actions in light of the Fifth Circuit's decision. In addition, New York and several other states have proposed or are expected to propose a heightened standard of care for financial professionals in their respective states and/or relating to the sale of retirement savings and investment products.

One of the most significant impacts on our business from the DOL regulations and related prohibited transaction exemptions is the impact on our fee and compensation practices, which are likely to continue to some degree even though the DOL regulations have been vacated. These regulations also continue to subject us to an increased risk of class actions and other litigation and regulatory risks. In addition, the SEC or the states' promulgation or enactment, respectively, of an enhanced standard of care could similarly have adverse impacts on our business. Additional rulemaking or legislative action on the part of federal or local governments and governmental agencies could negatively impact our business and financial results. While we have not yet been required to make other material changes to our business or operations as a result of the Dodd-Frank Act or other rulemaking or legislative action, it is not certain what the scope of future rulemaking or interpretive guidance from the SEC, FINRA, CFTC, NFA, DOL, banking regulators and other regulatory agencies may be, how the courts and regulators might interpret these rules and what impact this will have on our compliance costs, business, operations and profitability.

Our profitability could also be affected by new or modified laws that impact the business and financial communities generally, including changes to the laws governing banking, the securities market, fiduciary duties, conflicts of interest, taxation, electronic commerce, client privacy and security of client data. As existing laws are modified and new laws are implemented, we may incur significant additional costs and have to expend a significant amount of time to develop and integrate appropriate systems and procedures to ensure initial and continuing compliance with such laws. These additional costs could have a material adverse effect on our profitability.

Failure to comply with net capital requirements could adversely affect our business.

The SEC, FINRA, CFTC, NFA and various other regulatory agencies have stringent rules with respect to the maintenance of specific levels of net capital by securities broker-dealers, FCMs and FDMs. Net capital is a measure of a broker-dealer's, an FCM's or an FDM's readily available liquid assets, reduced by its total liabilities other than approved subordinated debt. Our broker-dealer and FCM/FDM subsidiaries are required to comply with net capital requirements. If we fail to maintain the required net capital, the SEC or the CFTC could suspend or revoke our registration, and FINRA or the NFA could expel us from membership, which could ultimately lead to our liquidation, or they could impose censures, fines or other sanctions. If the net capital rules are changed or expanded, or if there is an unusually large charge against net capital, then our operations that require capital could be limited, and we may not be able to pay dividends or make stock repurchases. A large operating loss or charge against net capital could have a material adverse effect on our ability to maintain or expand our business.

Extensive regulation and regulatory uncertainties could harm our business.

The securities industry is subject to extensive regulation by federal, state, international government and self-regulatory agencies, and financial services companies are subject to regulations covering all aspects of the securities business.

Regulations are intended to ensure the integrity of financial markets, appropriate capitalization of broker-

Table of Contents

dealers, FCMs and FDMs and the protection of clients and their assets. These regulations often serve to limit our business activities through capital, client protection and market conduct requirements, as well as restrictions on the activities that we are authorized to conduct. Federal, state, self-regulatory organizations and foreign regulators can, among other things, censure, fine, issue cease-and-desist orders to, suspend or expel a regulated entity or any of its officers or employees. Despite our efforts to comply with applicable legal requirements, there are a number of risks, including in areas where applicable laws or regulations may be unclear or where regulators could revise their previous guidance, and we could fail to establish and enforce procedures to comply with applicable legal requirements and regulations, which could have a material adverse effect on our business.

Past turmoil in the financial markets has contributed to changes in laws and regulations, heightened scrutiny of the conduct of financial services firms and increasing penalties for violations of applicable laws and regulations. We may be adversely affected by new laws or regulations, changes in the interpretation of existing laws or regulations or more rigorous enforcement. The new laws and regulations may be complex, and we may not have the benefit of regulatory or federal interpretations to guide us in compliance. Changes in laws and regulations or new interpretations of existing laws and regulations also can have adverse effects on our methods and costs of doing business. We also may be adversely affected by other regulatory changes related to suitability of financial products, supervision, sales practices, application of fiduciary standards, best execution and market structure, which could limit the Company's business.

Because TD, among other things, owns more than 25% of our common stock, we are considered a non-bank subsidiary of TD under the Bank Holding Company Act of 1956 (the "BHC Act"). As a result, under the BHC Act, we are subject to the supervision and regulation of the Federal Reserve. These banking regulations limit the activities and the types of businesses that we may conduct and the types of companies we may acquire, and under these regulations the Federal Reserve could impose significant limitations on our current business and operations. TD is currently regulated as a "financial holding company" under the BHC Act, which allows TD and us to engage in a much broader set of activities than would otherwise be permitted under the BHC Act. Any failure of TD to maintain its status as a financial holding company could result in substantial limitations on certain of our activities.

Financial services firms are subject to numerous conflicts of interest or perceived conflicts of interest, over which federal and state regulators and self-regulatory organizations have increased their scrutiny. Addressing conflicts of interest is a complex and difficult undertaking. Our business and reputation could be harmed if we were to fail, or appear to fail, to address conflicts appropriately.

In addition, we use the Internet as a major distribution channel to provide services to our clients. A number of regulatory agencies have adopted regulations regarding client privacy, system security and safeguarding practices and the use of client information by service providers. Additional laws and regulations relating to the Internet and safeguarding practices could be adopted in the future, including laws related to access, identity theft and regulations regarding the pricing, taxation, content and quality of products and services delivered over the Internet. Complying with these laws and regulations may be expensive and time-consuming and could limit our ability to use the Internet as a distribution channel, which would have a material adverse effect on our business and profitability.

While we maintain systems and procedures designed to ensure that we comply with applicable laws and regulations, violations could still occur. In addition, some legal and regulatory frameworks provide for the imposition of fines or penalties for non-compliance even though the non-compliance was inadvertent or unintentional and even though systems and procedures reasonably designed to prevent violations were in place at the time. There may be other negative consequences resulting from a finding of non-compliance, including restrictions on certain activities. Such a finding may also damage our reputation and our relationships with regulators and could restrict the ability of institutional investment managers to invest in our securities.

We are subject to litigation and regulatory investigations and proceedings and may not always be successful in defending against such claims and proceedings.

The financial services industry faces substantial litigation and regulatory risks. We are subject to arbitration claims and lawsuits in the ordinary course of our business, as well as class actions and other significant litigation. We also are the subject of inquiries, investigations and proceedings by regulatory and other governmental agencies. Actions brought against us may result in settlements, awards, injunctions, fines, penalties and other results adverse to us. Predicting the outcome of such matters is inherently difficult, particularly where claims are brought on behalf of

various classes of claimants or by a large number of claimants, when claimants seek substantial or unspecified

18

Table of Contents

damages or when investigations or legal proceedings are at an early stage. A substantial judgment, settlement, fine or penalty could be material to our operating results or cash flows for a particular period, depending on our results for that period, or could cause us significant reputational harm, which could harm our business prospects. In market downturns, the volume of legal claims and amount of damages sought in litigation and regulatory proceedings against financial services companies have historically increased. We are also subject to litigation claims from third parties alleging infringement of their intellectual property rights. Such litigation can require the expenditure of significant resources, regardless of whether the claims have merit. If we were found to have infringed a third-party patent or other intellectual property right, then we could incur substantial liability and in some circumstances could be enjoined from using the relevant technology or providing related products and services, which could have a material adverse effect on our business and results of operations.

Risk Factors Relating to Acquisitions

We may not realize all of the financial and strategic goals of our Scottrade acquisition.

Risks we face in connection with our acquisition and continuing integration of Scottrade include that:

the Scottrade acquisition might not further our business strategy as we expected, we might not integrate Scottrade's business or technology as successfully as we expected, or we might have overpaid for Scottrade or otherwise might not realize the expected return on our investment to the extent or in the timeframe forecasted, which could adversely affect our business or results of operations;

we may not realize the benefits or cost savings anticipated to be derived from the Scottrade acquisition as initially predicted, if at all, for a number of reasons, including if a larger than predicted number of customers decide not to continue to use Scottrade's or our services;

our financial condition or results of operations could be adversely impacted by: claims or liabilities that we assumed from Scottrade or that are otherwise related to the acquisition, including claims made by government agencies, terminated employees, current or former customers, former stockholders or other third parties; contractual relationships of Scottrade that we would not have entered into but for the merger, the termination or modification of which may be costly or disruptive to our business; and intellectual property claims or disputes; and we may have failed to identify or assess the magnitude of liabilities, shortcomings or other circumstances of Scottrade, which could result in unexpected litigation or regulatory exposure, unfavorable accounting treatment, unexpected increases in taxes, a loss of anticipated tax benefits or other adverse effects on our business, financial condition or results of operations.

As a result of these risks and challenges, we may not realize the financial and strategic goals that we initially anticipated from the Scottrade transaction in a timely manner or at all.

Acquisitions involve risks that could adversely affect our business.

We may pursue other acquisitions of businesses and technologies. Acquisitions entail numerous risks, including:

difficulties in the integration of acquired operations, services and products;

failure to achieve expected synergies;

diversion of management's attention from other business concerns;

assumption of unknown material liabilities of acquired companies;

amortization of acquired intangible assets, which could reduce future reported earnings;

potential loss of clients or key employees of acquired companies; and

dilution to existing stockholders.

As part of our growth strategy, we regularly consider, and from time to time engage in, discussions and negotiations regarding transactions, such as acquisitions, mergers and combinations within our industry. The purchase price for possible acquisitions could be paid in cash, through the issuance of common stock or other securities, borrowings or a combination of these methods.

Table of Contents

We cannot be certain that we will be able to identify, consummate and successfully integrate acquisitions, and no assurance can be given with respect to the timing, likelihood or business effect of any possible transaction. For example, we could begin negotiations that we subsequently decide to suspend or terminate for a variety of reasons. However, opportunities may arise from time to time that we will evaluate. Any transactions that we consummate would involve risks and uncertainties to us. These risks could cause the failure of any anticipated benefits of an acquisition to be realized, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

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 (i) TD or (ii) J. Joe Ricketts, our founder, and certain members of his family and trusts held for their benefit, who currently have registration rights covering approximately 234 million shares and 59 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.

We are restricted by the terms of our revolving credit facilities and senior notes.

Our senior unsecured revolving credit facilities contain various covenants and restrictions that may, in certain circumstances and subject to carveouts and exceptions, which may be material, limit our ability to:

- incur additional indebtedness;
- create liens;
- sell all or substantially all of our assets;
- change the nature of our business;
- merge or consolidate with another entity; and
- conduct transactions with affiliates.

Under our revolving credit facilities, we are also required to maintain compliance with a maximum consolidated leverage ratio covenant (not to exceed 3.00:1.00) and a minimum consolidated interest coverage ratio covenant (not less than 4.00:1.00). TDAC is required to maintain compliance with a minimum consolidated tangible net worth covenant and our broker-dealer and FCM/FDM subsidiaries are required to maintain compliance with minimum regulatory net capital covenants.

Table of Contents

Our senior unsecured notes contain various covenants and restrictions that may, in certain circumstances and subject to carveouts and exceptions, which may be material, limit our ability to:

• create liens;

• merge or consolidate w