

STATEMENT OF FINANCIAL CONDITION AND SUPPLEMENTAL INFORMATION

TD Ameritrade Futures & Forex LLC

(An Indirect Wholly Owned Subsidiary of TD Ameritrade Holding Corporation)

September 30, 2018

With Report of Independent Registered Public Accounting Firm

TD Ameritrade Futures & Forex LLC
(An Indirect Wholly Owned Subsidiary of TD Ameritrade Holding Corporation)

Statement of Financial Condition and Supplemental Information

September 30, 2018

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Member of TD Ameritrade Futures & Forex LLC

Opinion on the Financial Statement

We have audited the accompanying statement of financial condition of TD Ameritrade Futures & Forex LLC (the Company) as of September 30, 2018 and the related notes (the “financial statement”). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company at September 30, 2018, in conformity with the U.S. generally accepted accounting principles.

Basis for Opinion

This financial statement is the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Supplemental Information

The accompanying information contained in Schedule I has been subjected to audit procedures performed in conjunction with the audit of the Company’s financial statement. Such information is the responsibility of the Company’s management. Our audit procedures included determining whether the information reconciles to the financial statement or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information. In forming our opinion on the information, we evaluated whether such information, including its form and content, is presented in conformity with Regulation 1.10 under the Commodity Exchange Act. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statement as a whole.

Ernst & Young LLP

We have served as the Company’s auditor since 2015.

November 16, 2018

TD Ameritrade Futures & Forex LLC
(An Indirect Wholly Owned Subsidiary of TD Ameritrade Holding Corporation)

Statement of Financial Condition
(In Thousands)

September 30, 2018

Assets

Cash and cash equivalents.....	\$ 88,920
Cash and investments segregated and on deposit for regulatory purposes.....	332,068
Receivable from brokers, dealers and clearing organizations	11,300
Receivable from clients.....	712
Receivable from nonclients	1
Receivable from affiliates	19
Other receivables	952
Goodwill.....	63,329
Acquired intangible assets, net	2,920
Other assets.....	539
Total assets.....	<u>\$ 500,760</u>

Liabilities and member's equity

Liabilities:

Payable to clients.....	\$ 301,487
Payable to nonclients	718
Payable to affiliates	1,073
Accounts payable and accrued liabilities	361
Deferred income taxes, net.....	654
Total liabilities	<u>304,293</u>
Member's equity.....	<u>196,467</u>
Total liabilities and member's equity	<u>\$ 500,760</u>

See accompanying notes.

TD Ameritrade Futures & Forex LLC
(An Indirect Wholly Owned Subsidiary of TD Ameritrade Holding Corporation)

Notes to the Statement of Financial Condition

(Dollars In Thousands)

September 30, 2018

1. Organization and Nature of Operations

TD Ameritrade Futures & Forex LLC (the "Company") is an indirect wholly owned subsidiary of TD Ameritrade Holding Corporation (the "Parent") through the Company's immediate parent, TD Ameritrade Online Holdings Corp. ("TDAOH"). The Company evaluated subsequent events through November 16, 2018, the date on which the Statement of Financial Condition was available to be issued.

The Company provides futures and foreign exchange trade execution services to its clients and clients of other entities related by common ownership, all of which are indirect wholly owned subsidiaries of the Parent. The Company is registered as a futures commission merchant ("FCM") and forex dealer member ("FDM") with the Commodity Futures Trading Commission ("CFTC") and is a member of, and the corresponding services functions are regulated by, the National Futures Association ("NFA"). The Company is required to comply with all applicable regulations of the CFTC and NFA.

The Company contracts with external providers for futures clearing and to facilitate foreign exchange trading for its clients on an omnibus basis.

2. Significant Accounting Policies

Use of Estimates

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

Cash and Cash Equivalents

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

Cash and Investments Segregated and on Deposit for Regulatory Purposes

Cash and investments segregated and on deposit for regulatory purposes consists primarily of cash deposits and U.S. Treasury securities that have been segregated or secured for the benefit of futures clients according to the regulations of the CFTC governing futures commission merchants.

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Notes to the Statement of Financial Condition (continued)

(Dollars In Thousands)

Receivable from Brokers, Dealers and Clearing Organizations

Receivable from brokers, dealers and clearing organizations primarily arise in connection with foreign exchange transactions and includes client cash held by an unaffiliated service provider.

Receivable from/Payable to Clients

Receivable from clients arise primarily in connection with futures transactions. Payable to clients arise primarily in connection with futures and foreign exchange transactions and include client cash held in futures and forex accounts and the fair value of any net unrealized gains/losses on open client futures and foreign exchange contracts. The value of client options on futures is not reflected in the accompanying Statement of Financial Condition.

Receivable from/Payable to Nonclients

Certain employee futures accounts are considered "nonclient" for regulatory purposes.

Goodwill

The Parent and TDAOH have recorded goodwill for purchase business combinations to the extent the purchase price of each completed acquisition exceeded the fair value of the net identifiable assets of the acquired company. Goodwill resulting from certain business combinations has been pushed down to the Company. The Company tests goodwill for impairment on an annual basis and more frequently as events occur or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. In performing impairment tests, the Company utilizes an income valuation methodology. Under this approach, the Company uses the discounted cash flow methodology. No impairment charges have resulted from the annual impairment test.

Amortization of Acquired Intangible Assets

Acquired intangible assets pushed down to the Company are amortized on a straight-line basis over their estimated useful life of 11 years.

Long-Lived Assets and Acquired Intangible Assets

The Company reviews its long-lived assets and acquired intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If based on that review, changes in circumstances indicate that the carrying amount of such assets may not be recoverable, the Company evaluates recoverability by comparing the undiscounted cash flows associated with the asset to the asset's carrying amount. The Company also evaluates the remaining useful lives of intangible assets to determine if events or trends warrant a revision to the remaining period of amortization.

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Notes to the Statement of Financial Condition (continued)

(Dollars In Thousands)

Income Taxes

The Company has elected to be treated as a corporation for income tax purposes. 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 tax provision is computed in accordance with a tax sharing agreement with the Parent that is primarily based on a separate company method of reporting. Deferred tax assets and liabilities are determined based on the differences 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.

Recently Adopted Accounting Pronouncements

ASU 2018-05 – In March 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-05, *Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*. ASU 2018-05 amends Accounting Standards Codification ("ASC") 740, *Income Taxes*, to provide guidance on accounting for the tax effects of the Tax Cuts and Jobs Act (the "Act") pursuant to Staff Accounting Bulletin No. 118, which allows entities to complete the accounting under ASC 740 within a one-year measurement period from the Act's enactment date. This ASU was effective upon issuance. For additional information regarding the Company's accounting for the tax effects of the Act under this guidance, see Note 5, Income Taxes.

Recently Issued Accounting Pronouncements

ASU 2018-13 – In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in this standard will remove, modify and add certain disclosures under ASC Topic 820, *Fair Value Measurement*, with the objective of improving disclosure effectiveness. ASU 2018-13 will be effective for the Company's fiscal year beginning October 1, 2020, with early adoption permitted. The transition requirements are dependent upon each amendment within this update and will be applied either prospectively or retrospectively. Since this update is intended to modify disclosures, the adoption of ASU 2018-13 is not expected to have a material impact on the Company's Statement of Financial Condition.

ASU 2017-04 – In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*, which is intended to simplify the test for goodwill impairment by eliminating Step 2 from the goodwill impairment test, which measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Under the amendments in this ASU, an entity should perform its annual goodwill impairment test by

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Notes to the Statement of Financial Condition (continued)

(Dollars In Thousands)

comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. When measuring the goodwill impairment loss, income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit should be considered, if applicable. An entity will still have the option to perform the qualitative assessment for a reporting unit to determine if the quantitative test is necessary. ASU 2017-04 should be applied prospectively and will be effective for the Company's fiscal year beginning October 1, 2020, with early adoption permitted. The Company does not expect this ASU to have a material impact on its Statement of Financial Condition.

ASU 2016-18 – In November 2016, the FASB issued ASU 2016-18, *Restricted Cash*. This ASU will amend the guidance in ASC Topic 230, *Statement of Cash Flows*, and is intended to reduce the diversity in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendments within this ASU will require that the reconciliation of the beginning-of-period and end-of-period cash and cash equivalents amounts shown on the statement of cash flows include restricted cash and restricted cash equivalents. If restricted cash and restricted cash equivalents are presented separately from cash and cash equivalents on the statement of financial condition, an entity will be required to reconcile the amounts presented on the statement of cash flows to the amounts on the statement of financial condition. An entity will also be required to disclose information regarding the nature of the restrictions. ASU 2016-18 requires retrospective application and became effective for the Company's fiscal year beginning October 1, 2018. The adoption of ASU 2016-18 will not have a material impact on the Company's Statement of Financial Condition.

ASU 2016-16 – In October 2016, the FASB issued ASU 2016-16, *Intra-Entity Transfers of Assets Other Than Inventory*. This ASU will amend the guidance in ASC Topic 740, *Income Taxes*. The amendments in this ASU are intended to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory by requiring an entity to recognize the income tax consequences when a transfer occurs, instead of when the asset is sold to a third party. ASU 2016-16 requires modified retrospective adoption and became effective for the Company's fiscal year beginning October 1, 2018. The adoption of ASU 2016-16 did not have an impact on the Company's Statement of Financial Condition.

ASU 2016-13 – In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*. The main objective of ASU 2016-13 is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by an entity at each reporting date. To achieve this objective, the amendments in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a

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Notes to the Statement of Financial Condition (continued)

(Dollars In Thousands)

broader range of reasonable and supportable information to develop credit loss estimates. ASU 2016-13 will be effective for the Company's fiscal year beginning October 1, 2020, using a modified retrospective approach. Early adoption is permitted. The Company is currently assessing the impact this ASU will have on its Statement of Financial Condition.

ASU 2014-09 – In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, to clarify the principles of recognizing revenue from contracts with customers and to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. This ASU will supersede the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, and most industry-specific guidance. Entities are required to apply the following steps when recognizing revenue under ASU 2014-09: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. This ASU also requires additional disclosures related to the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. An entity may apply the amendments by using one of the following two methods: (1) retrospective application to each prior reporting period presented or (2) a modified retrospective approach, requiring the standard be applied only to the most current period presented, with the cumulative effect of initially applying the standard recognized at the date of initial application. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. Subsequent to issuing ASU 2014-09, the FASB has issued additional standards for the purpose of clarifying certain aspects of ASU 2014-09. The subsequently issued ASUs have the same effective date and transition requirements as ASU 2014-09.

The Company adopted the revenue recognition standard as of October 1, 2018 using the modified retrospective method of adoption. This adoption did not have a material impact on the Company's Statement of Financial Condition as the satisfaction of performance obligations under the new guidance is materially consistent with the Company's previous revenue recognition policies. The Company's implementation work is now substantially complete and the additional disclosure requirements will be reflected in fiscal year 2019.

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Notes to the Statement of Financial Condition (continued)

(Dollars In Thousands)

3. Cash and Investments Segregated and on Deposit for Regulatory Purposes

Cash and investments segregated and on deposit for regulatory purposes consists of the following as of September 30, 2018:

Cash on deposit with futures commission merchants	\$ 202,051
Cash in demand deposit accounts	105,098
U.S. government debt securities on deposit with futures commission merchant.....	24,919
Total	<u>\$ 332,068</u>

4. Goodwill and Acquired Intangible Assets

The following table summarizes changes in the Company's goodwill and acquired intangible assets:

	<u>Goodwill</u>	<u>Acquired Intangible Assets, Net</u>
Balance as of September 30, 2017.....	\$ 63,329	\$ 4,644
Amortization of acquired intangible assets.....	—	(1,724)
Balance as of September 30, 2018.....	<u>\$ 63,329</u>	<u>\$ 2,920</u>

Acquired finite-lived intangible assets consist of the following as of September 30, 2018:

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Client relationships.....	\$ 18,969	\$ (16,049)	\$ 2,920

5. Income Taxes

The Tax Cuts and Jobs Act was enacted on December 22, 2017. The Act reduces the U.S. federal corporate income tax rate from 35% to 21%. The Company remeasured deferred income tax asset and liability balances as of the date of the Act's enactment based on the income tax rates at which they are expected to reverse in the future. The Company recorded a net favorable adjustment of \$604 to its net deferred tax liability balance related to the remeasurement of the Company's deferred income tax balances as it pertains to the Act. As of September 30, 2018, the Company has completed its accounting for the tax effects of the Act.

As of September 30, 2018, temporary differences between the Statement of Financial Condition carrying amounts and tax bases of assets and liabilities arise primarily from acquired intangible assets and certain accrued liabilities.

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Notes to the Statement of Financial Condition (continued)

(Dollars In Thousands)

Deferred income taxes consist of the following as of September 30, 2018:

Deferred tax liabilities.....	\$	(704)
Deferred tax assets.....		50
Net deferred tax liabilities.....		\$ (654)

The Company's income tax returns are subject to review and examination by federal, state and local taxing authorities. The Company's federal claims for refund for tax years 2012 through 2014 are being examined by the Internal Revenue Service. The federal returns for 2015 through 2017 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, 2018, the Company had no uncertain tax positions and there was no accrued interest and penalties included in the Statement of Financial Condition.

6. Capital Requirements

The Company is subject to CFTC Regulations 1.17 and 5.7 under the Commodity Exchange Act, administered by the CFTC and the NFA. As an FCM, the Company is required to maintain minimum adjusted net capital under CFTC Regulation 1.17 of the greater of (a) \$1,000 or (b) its futures risk-based capital requirement, equal to 8% of the total risk margin requirement for all futures positions carried by the FCM in client and nonclient accounts. As an FDM, the Company is also subject to the net capital requirements under CFTC Regulation 5.7, which requires the Company to maintain minimum adjusted net capital of the greater of (a) any amount required under CFTC Regulation 1.17 as described above or (b) \$20,000 plus 5% of all foreign exchange liabilities owed to forex clients in excess of \$10,000. In addition, an FCM and FDM must provide notice to the CFTC if its adjusted net capital amounts to less than (a) 110% of its risk-based capital requirement under CFTC Regulation 1.17, (b) 150% of its \$1,000 minimum dollar requirement, or (c) 110% of \$20,000 plus 5% of all foreign exchange liabilities owed to forex clients in excess of \$10,000.

The following table summarizes the Company's adjusted net capital and adjusted net capital requirements as of September 30, 2018:

Adjusted Net Capital	Required Adjusted Net Capital (\$20,000 Plus 5% of All Foreign Exchange Liabilities Owed to Forex Clients in Excess of \$10,000)	Adjusted Net Capital in Excess of Required Adjusted Net Capital
\$ 128,525	\$ 22,714	\$ 105,811

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Notes to the Statement of Financial Condition (continued)

(Dollars In Thousands)

7. Employee Benefit Plans

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

8. Commitments and Contingencies

Borrowing Arrangement

The Company entered into an amended and restated credit agreement with the Parent during fiscal 2016, under which the Parent may make loans of cash or securities to the Company. The amended and restated credit agreement has an initial term of five years ending on August 11, 2021, and will automatically renew for an additional five-year term, unless either party provides notice to the other of its intent to terminate not less than 30 days before the end of the then current term. Under this agreement, the Company may borrow from the Parent, under a committed facility, up to 75% of the sum of 1) the Company's "residual interest target" as determined by the Company in accordance with applicable rules and regulations and 2) the Company's total retail forex obligation excess represented solely by the Company's deposit. As of September 30, 2018, the loan commitment amount was \$45,000.

Loans under the committed facility must be repaid with interest on or before the termination date. The applicable interest rate is calculated as a per annum rate equal to, at the Company's option, (a) LIBOR plus an interest rate margin ("Eurodollar loans") or (b) the federal funds effective rate plus an interest rate margin ("Federal Funds Rate loans"). The interest rate margin ranges from 0.75% to 1.25% for both Eurodollar loans and Federal Funds Rate loans, determined by reference to the Parent's public debt ratings. As of September 30, 2018, the interest rate margin would have been 1.00% for both Eurodollar loans and Federal Funds Rate loans, determined by reference to the Parent's public debt ratings. There were no borrowings outstanding under the credit agreement as of September 30, 2018.

Legal and Regulatory Matters

Futures Options Litigation — On April 10, 2018, Diego Krukever, Karem Sandgarten and Amir Rahimi, filed a putative class action lawsuit against the Company and TD Ameritrade, Inc., an indirect wholly owned subsidiary of the Parent, (collectively, "TD Ameritrade") in the United States District Court for the Southern District of Florida. On October 23, 2018, Kaitlin Wooddell was added as a plaintiff. Plaintiffs, clients of TD Ameritrade, allege that the Company, wrongfully liquidated plaintiffs' short put options on E-Mini S&P 500 futures contracts between the stock market closing on February 5, 2018, and the stock market opening on February 6, 2018, during which time they allege the options futures markets were illiquid. Plaintiffs claim that the conduct of

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Notes to the Statement of Financial Condition (continued)

(Dollars In Thousands)

the Company operated as a fraud or deceit in violation of section 6b(e)(3) of the Commodity Exchange Act and section 180.1(a)(3) of the CFTC regulations, and breached an implied covenant of good faith and fair dealing by failing to liquidate positions in a commercially reasonable way. Plaintiffs claim that TD Ameritrade, Inc. aided and abetted the alleged violations by the Company. Plaintiffs allege that defendants caused plaintiffs and class members to incur tens of millions of dollars of losses. On July 23, 2018, TD Ameritrade filed a motion to dismiss plaintiffs' second amended complaint, which plaintiffs opposed. On October 5, 2018, the Court dismissed with prejudice the claims that the conduct of the Company operated as a fraud or deceit in violation of the above-referenced sections of the Commodity Exchange Act and the CFTC regulations. The Court dismissed with prejudice the aiding and abetting claim against TD Ameritrade, Inc. The Court denied the motion to dismiss the claim of breach of an implied covenant of good faith and fair dealing. Plaintiffs have filed a motion for class certification, which the Company has opposed. Discovery has begun. Other clients have filed similar claims against TD Ameritrade in arbitrations. The Company intends to vigorously defend against the putative class action lawsuit and the arbitrations and is unable to predict the outcome or the timing of the ultimate resolution of this litigation, or the potential losses, if any, that may result.

The Company is subject to other lawsuits, arbitrations, claims and other legal proceedings in connection with its business. Some of these legal actions include claims for substantial or unspecified compensatory and/or punitive damages. 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. The Company believes, based on its current knowledge and after consultation with counsel, it has adequate legal defenses with respect to these legal proceedings in 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, in light of the uncertainties involved in such matters, the Company is unable to predict the outcome or the timing of the ultimate resolution of these matters or the potential losses, if any, that may result from these matters.

In the normal course of business, the Company discusses matters with its regulators raised during regulatory examinations or otherwise subject to their inquiry. These matters could result in censures, fines, penalties or other sanctions. Management believes the outcome of any resulting actions will not be material to the Company's Statement of Financial Condition. However, the Company is unable to predict the outcome or the timing of the ultimate resolution of these matters or the potential fines, penalties or injunctive or other equitable relief, if any, that may result from these matters.

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Notes to the Statement of Financial Condition (continued)

(Dollars In Thousands)

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.

Credit Risk

Two primary sources of credit risk inherent in the Company's business are (1) client credit risk related to leverage and (2) counterparty credit risk related to the execution and settlement of client futures and foreign exchange transactions. These activities may expose the Company to credit risk in the event the clients or counterparties are unable to fulfill their contractual obligations.

The Company extends leverage to its clients. Leverage involves securing a large potential future obligation with a lesser amount of collateral. The risks associated with leverage increase during periods of rapid market movements, or in cases where client positions are concentrated and market movements occur. The Company has the authority to liquidate certain positions in the client's account at prevailing market prices in order to reduce the risk of loss. However, during periods of rapid market movements, client collateral and proceeds from liquidated positions may not be sufficient to cover client obligations. During February 2018, the public equity markets experienced a spike in volatility, including a sharp decline in the S&P 500 index. These market events had a significant impact on investments that are sensitive to volatility, including options on futures products. As a result of the market volatility, clients incurred losses within their futures and/or forex accounts. For additional information concerning these unsecured losses, see "Account Funding and Sweep Arrangement Agreements" in Note 10. The Company seeks to mitigate the risks associated with its client leverage activities by requiring clients to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels throughout each trading day and, pursuant to such guidelines, requires clients to deposit additional collateral, or to reduce positions, when necessary.

The Company contracts with unaffiliated FCM, FDM and broker-dealer entities to clear and execute futures and foreign exchange transactions for its clients. This can result in concentrations of credit risk with one or more of these counterparties. This risk is partially mitigated by the counterparties' obligation to comply with rules and regulations governing FCMs, FDMs and broker-dealers in the United States. These rules generally require maintenance of net capital and segregation of client funds and securities from holdings of the clearing FCMs and broker-dealers. In addition, the Company manages this risk by requiring credit approvals for counterparties and by utilizing account funding and sweep arrangement agreements (see Note 10) that generally specify that all client cash in excess of futures funding requirements be transferred back to the clients' securities brokerage accounts on a daily basis.

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Notes to the Statement of Financial Condition (continued)

(Dollars In Thousands)

Guarantees

The Company clears its clients' futures transactions on an omnibus account basis through unaffiliated clearing firms. The Company also contracts with an external provider on an omnibus basis to facilitate foreign exchange trading for its clients. The Company has agreed to indemnify these unaffiliated clearing firms and the external provider for any loss that they may incur from the client transactions introduced to them by the Company. The Company does not expect losses under the indemnifications to be material to the Company's Statement of Financial Condition.

9. Fair Value Disclosures

Fair Value Measurement — Definition and Hierarchy

ASC 820-10, *Fair Value Measurement*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date.

ASC 820-10 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability, developed based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's own assumptions about the assumptions market participants would use in pricing the asset or liability, developed based on the best information available in the circumstances.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels, as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. This category includes money market mutual funds.
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Such inputs include quoted prices in markets that are not active, quoted prices for similar assets and liabilities in active and inactive markets, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means. This category includes debt securities.
- 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.

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Notes to the Statement of Financial Condition (continued)

(Dollars In Thousands)

The following table presents the Company's fair value hierarchy for assets measured at fair value on a recurring basis as of September 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Assets				
Cash equivalents:				
Money market mutual funds	\$ 22,146	\$ —	\$ —	\$ 22,146
Investments segregated and on deposit for regulatory purposes:				
U.S. government debt securities.....	—	24,919	—	24,919
Total assets at fair value	<u>\$ 22,146</u>	<u>\$ 24,919</u>	<u>\$ —</u>	<u>\$ 47,065</u>

There were no transfers between any levels of the fair value hierarchy during fiscal year 2018.

Valuation Techniques

In general, and where applicable, the Company uses quoted prices in active markets for identical assets or liabilities to determine fair value. This pricing methodology applies to the Company's Level 1 assets and liabilities. If quoted prices in active markets for identical assets and liabilities are not available to determine fair value, then the Company uses quoted prices for similar assets and liabilities or inputs other than the quoted prices that are observable, either directly or indirectly. This pricing methodology applies to the Company's Level 2 assets and liabilities.

Level 2 Measurements:

Debt securities – Fair values for debt securities are based on prices obtained from an independent pricing vendor. The primary inputs to the valuation include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads. The Company validates the vendor pricing by periodically comparing it to pricing from another independent pricing service. The Company has not adjusted prices obtained from the independent pricing vendor because no significant pricing differences have been observed.

Fair Value of Financial Instruments Not Recorded at Fair Value

Receivable from brokers, dealers and clearing organizations, receivable from/payable to clients, receivable from/payable to nonclients, receivable from/payable to affiliates, other receivables and accounts payable and accrued liabilities are short-term in nature and accordingly are carried at amounts that approximate fair value. These financial instruments are recorded at or near their

TD Ameritrade Futures & Forex LLC
(An Indirect Wholly Owned Subsidiary of TD Ameritrade Holding Corporation)

Notes to the Statement of Financial Condition (continued)

(Dollars In Thousands)

respective transaction prices and historically have been settled or converted to cash at approximately that value (categorized as Level 2 of the fair value hierarchy).

Cash and investments segregated and on deposit for regulatory purposes includes cash on deposit with futures commission merchants and cash held in demand deposit accounts, for which the carrying values approximate the fair value (categorized as Level 1 of the fair value hierarchy). See Note 3 for a summary of cash and investments segregated and on deposit for regulatory purposes.

10. Related-Party Transactions

Allocated Costs from Affiliates Based on Services Agreements

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

Account Funding and Sweep Arrangement Agreements

All clients who maintain a futures and/or forex account with the Company must also maintain a securities brokerage account with TD Ameritrade, Inc., which is held at TD Ameritrade Clearing, Inc. ("TDAC"), an indirect wholly owned subsidiary of the Parent. Pursuant to account funding and sweep arrangement agreements between the Company, TD Ameritrade, Inc. and TDAC, all client cash is initially deposited and held in the client's securities brokerage account, subject to transfer on a daily basis to the client's futures account if funds are required as a result of futures funding requirements. Futures funding requirements may include the transfer of cash to satisfy a margin call, pre-fund margin to establish a new position or to satisfy any deficit. Unless a client opts out, all cash remaining in the client's futures account in excess of these futures funding requirements is transferred back to the client's securities brokerage account on a daily basis. Clients have the ability to transfer funds between their securities brokerage account and their futures and/or forex account. In the event the Company's clients have unsecured losses in their futures and/or forex accounts, the losses are transferred to TDAC, which then becomes subject to the terms of the clearing agreement between TD Ameritrade, Inc. and TDAC. Pursuant to the clearing agreement between TD Ameritrade, Inc. and TDAC, TDAC charges TD Ameritrade, Inc. for unsecured losses. During the fiscal year ended September 30, 2018, TDAC charged TD Ameritrade, Inc. \$18,639 for clients' net unsecured futures and/or forex losses, mostly resulting from market events during February 2018, as clients held concentrated positions in these market sensitive investments.

Fully-Disclosed Futures Commission Merchant Services Agreement

Under fully-disclosed futures commission merchant services agreements between the Company and two broker-dealer entities related by common ownership, the Company earns revenues from these related entities for processing futures transactions.

TD Ameritrade Futures & Forex LLC
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Notes to the Statement of Financial Condition (continued)

(Dollars In Thousands)

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, 2018:

Assets

Receivable from affiliates:

Receivable from affiliates related by common ownership.....	\$	<u>19</u>
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Liabilities

Payable to affiliates:

Payable to entities related by common ownership.....	\$	624
Payable to Parent for income taxes.....		<u>449</u>
Total	\$	<u>1,073</u>

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. Receivables from affiliates and other payables to affiliates are generally settled in cash on a monthly basis.

Supplemental Information

TD Ameritrade Futures & Forex LLC
(An Indirect Wholly Owned Subsidiary of TD Ameritrade Holding Corporation)

Schedule I

Statement of Segregation Requirements and Funds in Segregation For
Customers Trading on U.S. Commodity Exchanges Pursuant to
Regulation 4(d)(2) Under the Commodity Exchange Act

(In Thousands)

As of September 30, 2018

SEGREGATION REQUIREMENTS

Net ledger balance	
Cash	\$ 238,473
Net unrealized profit (loss) in open futures contracts traded on a contract market	(2,003)
Exchange traded options	
Market value of open option contracts purchased on a contract market	16,562
Market value of open option contracts granted (sold) on a contract market	(43,327)
Net equity (deficit)	209,705
Accounts liquidating to a deficit and accounts with debit balances - net of customer owned securities (\$0)	712
Amount required to be segregated	<u>210,417</u>

FUNDS IN SEGREGATED ACCOUNTS

Deposited in segregated funds bank accounts	
Cash	105,098
Net equities with other futures commission merchants	
Net liquidating equity	175,286
Securities representing investments of customers' funds (at market)	24,919
Total amount in segregation	<u>305,303</u>
Excess (deficiency) funds in segregation	<u>\$ 94,886</u>
Management Target Amount Excess funds in segregation (unaudited)	\$ 50,000
Excess (deficiency) funds in segregation over (under) Management Target Amount Excess (unaudited)	\$ 44,886

There are no material differences between the above computation for determination of segregation requirements pursuant to regulations under the Commodity Exchange Act and the corresponding computation included in TD Ameritrade Futures and Forex LLC's unaudited Form 1-FR-FCM report, filed on October 19, 2018.