

TD AMERITRADE HOLDING CORP
Form 10-Q
July 24, 2017

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

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended June 30, 2017

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the transition period from _____ to _____

Commission file number: 1-35509

TD Ameritrade Holding Corporation
(Exact name of registrant as specified in its charter)

Delaware 82-0543156
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
200 South 108th Avenue, Omaha, Nebraska, 68154
(Address of principal executive offices) (Zip Code)
(402) 331-7856
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes No

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

Large accelerated filer Accelerated filer

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

Emerging growth 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 Exchange Act).
Yes No

As of July 17, 2017, there were 528,149,235 outstanding shares of the registrant's common stock.

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PART I – FINANCIAL INFORMATION

Item 1. – Financial Statements

REVIEW REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

TD Ameritrade Holding Corporation

We have reviewed the condensed consolidated balance sheet of TD Ameritrade Holding Corporation and subsidiaries (the Company) as of June 30, 2017, and the related condensed consolidated statements of income and comprehensive income for the three-month and nine-month periods ended June 30, 2017 and 2016, and the condensed consolidated statements of cash flows for the nine-month periods ended June 30, 2017 and 2016. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole.

Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of TD Ameritrade Holding Corporation and subsidiaries as of September 30, 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year then ended (not presented herein) and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated November 18, 2016. In our opinion, the accompanying condensed consolidated balance sheet of TD Ameritrade Holding Corporation and subsidiaries as of September 30, 2016, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ ERNST & YOUNG LLP

New York, New York

July 24, 2017

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TD AMERITRADE HOLDING CORPORATION
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)

	June 30, 2017	September 30, 2016
	(In millions)	
ASSETS		
Cash and cash equivalents	\$2,880	\$ 1,855
Cash and investments segregated and on deposit for regulatory purposes	7,328	8,729
Receivable from brokers, dealers and clearing organizations	1,239	1,190
Receivable from clients, net	13,504	11,941
Receivable from affiliates	140	106
Other receivables, net	137	160
Securities owned, at fair value	407	331
Investments available-for-sale, at fair value	747	757
Property and equipment at cost, net	592	526
Goodwill	2,467	2,467
Acquired intangible assets, net	518	575
Other assets	151	181
Total assets	\$30,110	\$ 28,818
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Payable to brokers, dealers and clearing organizations	\$2,366	\$ 2,040
Payable to clients	18,928	19,055
Accounts payable and other liabilities	520	565
Payable to affiliates	7	9
Long-term debt	2,561	1,817
Deferred income taxes	268	281
Total liabilities	24,650	23,767
Stockholders' equity:		
Preferred stock, \$0.01 par value; 100 million shares authorized, none issued	—	—
Common stock, \$0.01 par value; one billion shares authorized; 631 million shares issued;		
June 30, 2017 - 528 million shares outstanding;	6	6
September 30, 2016 - 526 million shares outstanding		
Additional paid-in capital	1,699	1,670
Retained earnings	5,895	5,518
Treasury stock, common, at cost:		
June 30, 2017 - 103 million shares;	(2,116)	(2,121)
September 30, 2016 - 105 million shares		
Deferred compensation	1	—
Accumulated other comprehensive loss	(25)	(22)
Total stockholders' equity	5,460	5,051
Total liabilities and stockholders' equity	\$30,110	\$ 28,818
See notes to condensed consolidated financial statements.		

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

	Three Months Ended June 30, 2017		Nine Months Ended June 30, 2016	
	2017	2016	2017	2016
	(In millions, except per share amounts)			
Revenues:				
Transaction-based revenues:				
Commissions and transaction fees	\$335	\$347	\$1,054	\$1,035
Asset-based revenues:				
Insured deposit account fees	286	234	800	696
Net interest revenue	175	143	480	444
Investment product fees	112	96	309	276
Total asset-based revenues	573	473	1,589	1,416
Other revenues	23	18	50	46
Net revenues	931	838	2,693	2,497
Operating expenses:				
Employee compensation and benefits	234	209	677	617
Clearing and execution costs	38	35	111	102
Communications	34	33	98	99
Occupancy and equipment costs	44	43	133	128
Depreciation and amortization	25	23	74	67
Amortization of acquired intangible assets	19	22	57	66
Professional services	67	47	178	121
Advertising	58	58	195	202
Other	18	20	65	61
Total operating expenses	537	490	1,588	1,463
Operating income	394	348	1,105	1,034
Other expense:				
Interest on borrowings	20	14	48	39
Loss on debt refinancing	1	—	1	—
Total other expense	21	14	49	39
Pre-tax income	373	334	1,056	995
Provision for income taxes	142	94	395	338
Net income	\$231	\$240	\$661	\$657
Earnings per share - basic	\$0.44	\$0.45	\$1.25	\$1.23
Earnings per share - diluted	\$0.44	\$0.45	\$1.25	\$1.23
Weighted average shares outstanding - basic	528	529	528	533
Weighted average shares outstanding - diluted	530	531	530	536
Dividends declared per share	\$0.18	\$0.17	\$0.54	\$0.51

See notes to condensed consolidated financial statements.

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

	Three Months Ended June 30, 2017		Nine Months Ended June 30, 2016		
	2017	2016	2017	2016	
	(In millions)				
Net income	\$231	\$240	\$661	\$657	
Other comprehensive income (loss), before tax:					
Investments available-for-sale:					
Unrealized gain (loss)	1	—	(8) —	
Cash flow hedging instruments:					
Reclassification adjustment for portion of realized loss amortized to net income	1	1	3	3	
Total other comprehensive income (loss), before tax	2	1	(5	) 3
Income tax effect	(1) —	2	(1)
Total other comprehensive income (loss), net of tax	1	1	(3	) 2
Comprehensive income	\$232	\$241	\$658	\$659	
See notes to condensed consolidated financial statements.					

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

	Nine Months Ended June 30,	
	2017	2016
	(In millions)	
Cash flows from operating activities:		
Net income	\$661	\$657
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	74	67
Amortization of acquired intangible assets	57	66
Deferred income taxes	(11)	) 5
Loss on debt refinancing	1	—
Stock-based compensation	26	24
Excess tax benefits on stock-based compensation	(12)	) (16)
Other, net	8	6
Changes in operating assets and liabilities:		
Cash and investments segregated and on deposit for regulatory purposes	1,401	(759)
Receivable from brokers, dealers and clearing organizations	(49)	) (431)
Receivable from clients, net	(1,563)	) 608
Receivable from/payable to affiliates, net	(36)	) (4)
Other receivables, net	23	12
Securities owned, at fair value	(76)	) 188
Other assets	(19)	) (37)
Payable to brokers, dealers and clearing organizations	326	(775)
Payable to clients	(127)	) 1,469
Accounts payable and other liabilities	(32)	) (48)
Net cash provided by operating activities	652	1,032
Cash flows from investing activities:		
Purchase of property and equipment	(141)	) (78)
Purchase of short-term investments	(1)	) (602)
Proceeds from sale and maturity of short-term investments	1	201
Net cash used in investing activities	(141)	) (479)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	798	—
Payment of debt issuance costs	(8)) —
Payment of cash dividends	(285)	) (272)
Proceeds from exercise of stock options: Nine months ended June 30, 2017 - 1.3 million shares	23	—
Purchase of treasury stock: Nine months ended June 30, 2016 - 10.7 million shares	—	(319)
Purchase of treasury stock for income tax withholding on stock-based compensation: Nine months ended June 30, 2017 - 0.7 million shares; 2016 - 0.9 million shares	(26)	) (30)
Payment for future treasury stock purchases under accelerated stock repurchase agreement	—	(9)
Excess tax benefits on stock-based compensation	12	16
Net cash provided by (used in) financing activities	514	(614)
Net increase (decrease) in cash and cash equivalents	1,025	(61)
Cash and cash equivalents at beginning of period	1,855	1,978
Cash and cash equivalents at end of period	\$2,880	\$1,917

Supplemental cash flow information:

Interest paid	\$48	\$46
Income taxes paid	\$367	\$377

See notes to condensed consolidated financial statements.

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TD AMERITRADE HOLDING CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Month and Nine Month Periods Ended June 30, 2017 and 2016
(Unaudited)

1. Basis of Presentation

The condensed consolidated financial statements include the accounts of TD Ameritrade Holding Corporation (the "Parent") and its wholly-owned subsidiaries (collectively, the "Company"). Intercompany balances and transactions have been eliminated.

These financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and, in the opinion of management, reflect all adjustments, which are all of a normal recurring nature, necessary to present fairly the financial position, results of operations and cash flows for the periods presented in conformity with U.S. generally accepted accounting principles ("GAAP"). These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report filed on Form 10-K for the fiscal year ended September 30, 2016.

Recently Adopted Accounting Pronouncements

ASU 2017-03 — In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-03, Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings. The applicable SEC Staff announcement applies to the following recently issued accounting standards that have not yet been adopted by the Company: Revenue from Contracts with Customers (ASU 2014-09); Leases (ASU 2016-02); Measurement of Credit Losses on Financial Instruments (ASU 2016-13); and any subsequent amendments to the aforementioned ASUs. Based on the views of the SEC staff, the amendments in ASU 2017-03 require entities to consider providing additional qualitative financial statement disclosures when the financial statement impact of adopting the three new ASUs mentioned above is not known or cannot be reasonably estimated. Such qualitative disclosures should include a description of the effect of the accounting policies that the registrant expects to apply, if determined, and a comparison to the entity's current accounting policies. In addition, an entity should describe the status of its process to implement the new standards and the significant implementation matters yet to be addressed. Since this update is intended to add disclosures related to certain ASUs, the adoption of ASU 2017-03 did not have a material impact on the Company's financial statements.

Recently Issued Accounting Pronouncements

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 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 is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. ASU 2017-04 will be effective the Company's fiscal year beginning October 1, 2020. The Company does not expect this ASU to have a material impact on its financial statements.

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 balance sheet, an entity will be

required to reconcile the amounts presented on the statement of cash flows to the amounts on the balance sheet. An entity will also be required to disclose information regarding the nature of the restrictions. ASU 2016-18 requires retrospective application and is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years, with early adoption permitted. ASU 2016-18 will be effective for the Company's fiscal year beginning October 1, 2018. The adoption of ASU 2016-18 will change the manner in which restricted cash and restricted cash equivalents are presented in the Company's financial statements.

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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 is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods, with early adoption permitted. ASU 2016-16 will be effective for the Company's fiscal year beginning October 1, 2018. The Company is currently assessing the impact this ASU will have on its financial statements.

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 broader range of reasonable and supportable information to develop credit loss estimates. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years, with early adoption permitted. Therefore, ASU 2016-13 will be effective for the Company's fiscal year beginning on October 1, 2020, using a modified retrospective approach. The Company is currently assessing the impact this ASU will have on its financial statements.

ASU 2016-09 — In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. The guidance in ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including: (1) all excess tax benefits and tax deficiencies should be recognized as income tax expense or benefit in the income statement; (2) tax effects of exercised or vested awards should be treated as discrete items in the period in which they occur; (3) excess tax benefits should be recognized regardless of whether the benefit reduces taxes payable in the current period; (4) excess tax benefits should be classified along with other income tax cash flows as an operating activity; (5) an entity can make an accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur; (6) the threshold to qualify for equity classification will permit withholding up to the maximum statutory rates in the applicable jurisdictions; and (7) cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity in the statement of cash flows. The transition requirements are dependent upon each amendment within this update and will be applied either prospectively, retrospectively or using a modified retrospective transition method. ASU 2016-09 is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods, with early adoption permitted. Therefore, ASU 2016-09 will be effective for the Company's fiscal year beginning October 1, 2017. The Company expects the adoption of this ASU may create some volatility in its quarterly and annual effective income tax rate related to the excess tax benefits and tax deficiencies being recognized as income tax expense or benefit in the Condensed Consolidated Statements of Income. The amount of excess tax benefits and tax deficiencies recognized will be dependent on the volume of equity compensation during a particular period and on the market price of the Company's common stock at the date the equity awards either vest or are exercised. A large portion of the impact from the adoption of ASU 2016-09 will likely occur during the first quarter of each fiscal year due to the Company's historic practice of granting the majority of equity compensation in that period.

ASU 2016-02 — In February 2016, the FASB issued ASU 2016-02, Leases. This ASU will supersede the guidance in Accounting Standards Codification ("ASC") Topic 840, Leases. Under ASU 2016-02, for lease arrangements exceeding a 12-month term, a lessee will be required to recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. ASU 2016-02 will retain a distinction between finance and operating leases; however, the principal difference from the previous guidance is that lease assets and liabilities arising from operating leases will be recognized in the statement of financial position. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee will not significantly change from current GAAP. The accounting applied by a lessor will be largely unchanged from that applied under current GAAP. ASU 2016-02 is effective for fiscal years

beginning after December 15, 2018, including interim periods within those fiscal years, and will require an entity to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Therefore, ASU 2016-02 will be effective for the Company's fiscal year beginning October 1, 2019. Early adoption is permitted. The Company is currently assessing the impact of this ASU, but does not expect the standard to have a material impact on its net income. Upon adoption of ASU 2016-02, the Company expects to recognize right-of-use assets and lease liabilities for its operating leases, with initial measurement as defined by the ASU, in its Condensed Consolidated Balance Sheets.

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

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requires additional disclosures related to the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. An entity may apply the amendments by using one of the following two methods: (1) retrospective application to each prior reporting period presented or (2) a modified retrospective approach, requiring the standard be applied only to the most current period presented, with the cumulative effect of initially applying the standard recognized at the date of initial application. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, 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 plans to adopt the revenue recognition standard as of October 1, 2018. The guidance does not apply to revenue associated with financial instruments, such as interest revenue, which is accounted for under other GAAP. Accordingly, the Company does not expect the adoption of this standard to impact net interest revenue. While the Company has not yet identified any material changes in the timing of revenue recognition, its review is ongoing. The Company has not selected a transition method and continues to evaluate the potential impacts that these revenue recognition standards may have on its financial statements, including the incremental costs of obtaining contracts, gross versus net reporting, and additional disclosure requirements.

2. Business Acquisition

On October 24, 2016, the Company entered into an Agreement and Plan of Merger with Scottrade Financial Services, Inc. ("Scottrade"), Rodger O. Riney, as Voting Trustee of the Rodger O. Riney Family Voting Trust U/A/D 12/31/2012, and Alto Acquisition Corp., a wholly-owned subsidiary of the Company, pursuant to which the Company agreed to acquire Scottrade in a cash and equity transaction, which was valued at \$4 billion as of that date. The transaction will take place in two, consecutive steps. First, and as a condition precedent to the Company's acquisition of Scottrade, The Toronto-Dominion Bank ("TD") will purchase Scottrade Bank, a wholly-owned subsidiary of Scottrade, from Scottrade for \$1.3 billion in cash, subject to closing adjustments. Under the terms of the planned acquisition, Scottrade Bank will merge with and into TD Bank, N.A., an indirect wholly-owned subsidiary of TD. Additionally, the Company expects TD to purchase \$400 million in new common equity, or approximately 11 million shares, from the Company in connection with the planned transaction. Immediately following TD's acquisition of Scottrade Bank, the Company will acquire Scottrade for \$4 billion less the proceeds from the sale of Scottrade Bank, which is subject to closing adjustments. The Company intends to fund the acquisition of Scottrade with \$1 billion in new common equity, or approximately 28 million shares, issued to Scottrade shareholders, the net proceeds received from the Company's issuance of 3.300% Senior Notes on April 27, 2017, cash on hand and cash proceeds from the sale of the Company's common stock to TD, as described above. For information regarding the Company's issuance of 3.300% Senior Notes, see "Senior Notes" in Note 6. The transaction is subject to regulatory approvals and customary closing conditions and is expected to close by September 30, 2017. On December 8, 2016, the U.S. Federal Trade Commission notified the Company that early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 was granted, effective immediately.

3. Cash and Cash Equivalents

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

	June 30, September 30,	
	2017	2016
Corporate	\$ 1,893	\$ 460
Broker-dealer subsidiaries	796	1,153
Trust company subsidiary	89	85
Futures commission merchant and forex dealer member subsidiary	88	125
Investment advisory subsidiaries	14	32
Total	\$ 2,880	\$ 1,855

Capital requirements may limit the amount of cash available for dividend from the broker-dealer, trust company and futures commission merchant ("FCM")/forex dealer member ("FDM") subsidiaries to the Parent.

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

Cash and investments segregated and on deposit for regulatory purposes consists of the following (dollars in millions):

	June 30, September 30,	
	2017	2016
U.S. government debt securities	\$ 4,799	\$ 6,523
Cash in demand deposit accounts	1,319	657
Reverse repurchase agreements (collateralized by U.S. government debt securities)	650	1,288
U.S. government agency mortgage-backed securities	270	—
Cash on deposit with futures commission merchants	215	186
U.S. government debt securities on deposit with futures commission merchant	75	75
Total	\$ 7,328	\$ 8,729

5. Income Taxes

The Company's effective income tax rate for the nine months ended June 30, 2017 was 37.4%, compared to 34.0% for the nine months ended June 30, 2016. The provision for income taxes for the nine months ended June 30, 2017 included \$7 million of net favorable resolutions of state income tax matters and \$3 million of favorable tax benefits for federal incentives. These items had a net favorable impact on the Company's earnings for the nine months ended June 30, 2017 of approximately two cents per share. The provision for income taxes for the nine months ended June 30, 2016 was impacted by \$38 million of net favorable adjustments to uncertain tax positions and related deferred income tax assets, which included a favorable \$33 million tax liability remeasurement related to a state court decision. The provision was also impacted by \$5 million of net favorable deferred income tax adjustments due to the remeasurement of deferred tax assets and liabilities and the cumulative impact of the decline in the state tax rate. These items had a net favorable impact on the Company's earnings for the nine months ended June 30, 2016 of approximately eight cents per share.

6. Long-term Debt and Credit Facilities

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

	Face Value	Unamortized Discounts and Debt Issuance Costs	Fair Value Adjustment ⁽¹⁾	Net Carrying Value
June 30, 2017				

Senior Notes: