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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone and welcome to the TD Ameritrade Holding Corporation's December Quarter Earnings Results Conference Call. This call is being recorded. With us today from the company is President and Chief Executive Officer; Tim Hockey; and Chief Financial Officer, Steve Boyle.

At this time, I would like to turn the call over to Jeff Goeser, Director of Investor Relations. Please go ahead, sir.

Jeffrey Goeser

Director-Finance & Investor Relations, TD Ameritrade Holding Corp.

Good morning, everyone and welcome to our first quarter fiscal 2017 conference call. You can find everything related to this morning's announcement on our corporate website, amtd.com, including our press release and the related presentation slides. Just click on Investor Relations.

These slides include our Safe Harbor statement and the reconciliation of certain non-GAAP financial measures to our most comparable GAAP financial measures. Information about relevant risk factors can be found in our forms 10-Q and 10-K, which are also available online.

This call is intended for investors and analysts, questions from reporters can be directed to our media relations team, or you can follow our Twitter handle @TDAmeritradePR, which will be live tweeting this morning's call.

We have a large number of covering analysts, so for those of you planning to participate in the Q&A, we ask that you limit your questions to two, so that we can get to as many of you as possible.

And now, I'd like to turn the call over to TD Ameritrade President and CEO, Tim Hockey. Tim?

Timothy D. Hockey

President and Chief Executive Officer, TD Ameritrade Holding Corp.

Thanks, Jeff and good morning everyone. Well, what a quarter. In my first 90 days as CEO of TD Ameritrade, we've experienced some things that I would have expected to see over the course of years, not just weeks. First, we announced plans to acquire Scottrade, the largest transaction in our history. Then, we had another Fed interest rate increase, now with 12 months coming and anticipated by nearly every economist out there, but it's still a welcome boost for our business model. And we witnessed one of the most contentious presidential elections in U.S. history, with an outcome that sent the markets into rally mode.

It was a quarter of significant change. We found opportunities to deliver a strong quarter, with record net revenue and EPS of $0.41 per share. It was also a strong quarter for organic growth. Trading and asset gathering picked up, as investors reengaged with the markets post election. This growth plus the December Fed move and steepening yield curve has made a very positive impact on our business. Now, pressure is on us to make sure the organic growth continues.

So, how will we do that? By continuing to deliver on our core strategic initiatives and building out a robust, meaningful client experience. Our acquisition of Scottrade fits into those plans as well. With the first regulatory milestone out of the way, integration planning is now in full force. There's a lot to be proud of, but there's even more to do. So, let's turn to slide 6, and our quarterly financial results.

As you can see, all of our key metrics have increased from last year. EPS was up 5% from the same quarter last year, and trading activity was up 11%. We earned a record $859 million in net revenue, up 6% from last year, and we gathered $18.7 billion in net new client assets. This was our second best quarter for NNA growth, up 7% from last year and a 10% annualized growth rate. Total client assets ended the quarter just shy of the $800 billion mark, up 15% from last year. Fee-based investment balances were up 11% to $174 billion, and interest rate-sensitive assets grew by 14% to $125 billion.

Now, let's turn to slide 7. Net new client assets of $18.7 billion put us right back into double-digit annualized asset growth, a great place to be. The results did skew a bit higher on the institutional side with an 80/20 split for the quarter, but we saw positive trends in both channels. Let's start with retail.

Overall client call volumes since the election were up 17% from last year, which on its own is a healthy increase, but new client calls were up 37%. Call topics were overwhelmingly market-related, a great opportunity to educate, provide guidance and introduce helpful solutions to our clients, and our teams delivered.

Asset inflows were up 6% from last year, and new funded accounts were up more than 20%. Retail net advocate scores, one of the ways we measure our impact on the client experience, were up 4 percentage points from last year. Scores for clients with branch and private client service relationships were even higher, which speaks to the value of the one-to-one relationship model that we're expanding across the firm. Asset outflows, however, were also up as more clients had decided to move money out of the market for other things like real estate, gifting, and business opportunities.

Our institutional channel had a record quarter for asset gathering. Momentum is high, and every facet of our distribution, new advisers, breakaway brokers, existing RIAs, is contributing to the growth.

The sales pipeline is filled with health activity. Just as retail investors have reengaged, brokers that have been on the fence about embracing the independent model are now ready to make a move. Conversations about the DOL Fiduciary Rule are encouraging broader discussions about the value of being an RIA. So, our institutional teams are fast at work on new programs to help these brokers make the transition and technology that will make it easier for all RIAs to serve their clients. It's a move towards automation.

For example, we launched Phase 1 of our new account wizard, which streamlines and digitizes the client on-boarding process. Since the launch, we've reduced new account processing time by nearly 40% per application. Our sales pitch to existing and new RIAs is an ever-improving client experience that will free them of administrative burdens so that they can spend more time delivering value they're uniquely positioned to provide, the personal, financial life coach relationships they build with their clients.

Now, let's cover trading on slide 8. Our 487,000 DARTS were a December quarter record and the third-best quarter in our history. January trades to-date are averaging 508,000 per day. The story here is also one of reengagement. We had a long, unconventional, and at times uncertain election cycle. The outcome brought more investors back to the markets to adjust their portfolios and align them with the promises of the incoming administration.

You can see the trade differential pre- and post-election; 451,000 DARTS before and 514,000 DARTS after. So, what specifically were our clients doing? Long-term investors sold long-held positions as the markets rallied. Traders continued to seek opportunities via effective rotation or trading on volatility in widely-held symbols, mainly in the finance, tech and infrastructure spaces.

We've said for years that news drives trading, and today, more often than not, social media is breaking that news. We launched our Social Signals tool a year ago because of that shift. Clients can use the tool to see Twitter activity in real-time related to the symbols they care about. It gives them a broader, consumer-oriented view of the securities they're interested in trading. There are insights that can be gathered about the performance of a given company based on what's being said in social channels.

And it couldn't have come at a better time. Now, we have a truly social president-elect with a willingness to make news with each tweet. In December, following one tweet about Boeing, trading in this symbol went up 93% from its previous 15-day average. It's happened several times more since then. Each time, it's a new market event and a potential trading opportunity for our clients.

Like everyone else, we're watching it with interest, because while this hyperactivity is good for business, it also underscores the fact that there is a lot of noise out there for our clients to sift through. Offering a broad selection of products, education and technical analysis tools that make the trading experience easier is critical. That's why our derivatives offering is so important. At 43% of DARTS, they make up a significant portion of our clients' trades.

But the big story this quarter was the role futures played as our clients reacted to the election. For many of these clients futures, which trade 24/5, have been a way to hedge their portfolios or be opportunistic when breaking news hits after-hours. November 8 was a record day for futures trading, with 60% of those volumes coming from after the equity and options markets had closed, as the returns were coming in. This compares to 10% to 15% on a typical day. Interest in futures accounts and education is growing. So, you can expect the derivatives trading experience to remain a key focus.

The same is true for mobile. One in five trades now comes from a mobile device and 30% of our daily client logins are mobile. Mobile adoption continues to grow, with record unique users each day of more than 275,000 and record DARTS in the quarter. Flexibility and choice, that's what our clients want and that's the value we deliver to them.

Let's continue the client experience discussion on slide 9. Last quarter, I shared with you our strategic goals for 2017. We talked about achieving differentiation through the client experience and the initiatives we had in place to do that. Now, I can update you on our progress.

First, let's talk functionality. We soft launched our Robo Advisor Essential Portfolios. The offering includes five model portfolio strategies as well as embedded goal planning and tracking tools. With an investment minimum of $5,000 and a flat-rate fee of 30 basis points, we believe it's an attractive offering. And initial results indicate that it's attracting new assets, which is even better.

We will begin marketing Essential Portfolios this month under a new master brand for our client advice solutions, TD Ameritrade Investment Management LLC. This new offering includes solutions like Essential Portfolios and Selective Portfolios, which is the new name for what was formerly known as Amerivest.

Next, we were the first online broker to launch a skill for Amazon's Alexa virtual assistant. Today, the skill will give you a market update or tell you how a specific security is doing. The work is only in its infancy, but we are diving deeper to give a true meaning for our clients.

We see vocal interfaces as a functionality that will increasingly become a key part of our daily lives, much like smartphones did for the adoption of mobile communications 10 years ago. We're energized by its potential for our clients and business.

For our advisors, we launched Veo One the next-generation of our Veo Open Access concept. Advisors can still work with multiple technology providers, but now they can do so in a completely integrated way, with one login and client data that flows seamlessly from application to application. It's mobile responsive. It's customizable. It includes advanced alerts and triggers to help automate daily tasks. And it minimizes manual entry when updating client data.

Right out of the gate, we've integrated with 14 of the most widely-used open access vendors with more to come. Veo One is the cornerstone of an advisor experience that truly seeks to eliminate friction points. We're very excited about it.

And for our traders, our relative thinkorswim release included a new crowd-sourcing tool that helps our clients identify potential trading opportunities, companies about to release earnings. We have coordinated with a platform called Estimize, which aggregates estimates from more than 2,000 listed securities from more than 3,000 buy- and sell-side analysts, private investors and students. Together, we're making it easier for retail traders to sit through the data and develop disciplined strategies. All of this work is the product of good progress on our core strategic initiatives.

We talked already about TD Ameritrade Investment Management. Our anticipated integration of Scottrade will fit into those plans nicely as we expand our distribution capabilities. Everything is proceeding according to schedule. With one of our early regulatory milestones, approval under the Hart-Scott-Rodino Antitrust Act out of the way, integration planning has begun and will continue until the deal closes, hopefully, later this year.

Work also continuous to comply with the DOL rule. We believe that we are in a good position to meet the April 10 deadline, but we are also monitoring what is happening in Washington. While delays or changes are certainly possible, we remain focused on our readiness for April, because regardless of what happens, our ultimate objective is to make investing and trading an enjoyable and meaningful experience for our clients. We want to innovate for them. We want to deliver new solutions to them faster. We want to educate and help them when and how they want it. We want to give them the best experience.

Now, with that, I'm going to pause and turn the call over to Steve for a financial review. Steve, over to you.

Stephen J. Boyle

Executive Vice President & Chief Financial Officer, TD Ameritrade Holding Corp.

Thank you, Tim and good morning everyone. We're providing some additional information throughout the materials that should help you with your models. At the same time, we're also trying to simplify some of the views. As it relates to the quarter, we had strong organic growth and net new assets – rate-sensitive assets and accounts that, coupled with emerging tailwind, should provide a strong base for earnings growth going forward.

With that, let's begin with the year-over-year comparisons on slide 11. Earnings per share was up 5%. Transaction revenue increased $27 million or 8% due to 49,000 more trades per day, as activity increased post-election, partially offset by a $0.25 decline in commission rates. The decline in commission rates was 2% year-over-year, consistent with the long-term trend we've been experiencing.

Asset-based revenue was up $17 million or 4% due to high balance growth of 10% primarily in the IDA. Operating expense is up $37 million. The large increase is primarily due to low initiative spend and clearing cost in the prior-year quarter. Finally, average share count is down 10 million, driving a $0.01 lift in earnings per share, as we bought back 12 million shares in fiscal 2016 at an average price of $29.40.

Let's move to the next slide to review linked quarter comparisons. Earnings per share was up $0.06 or 17% on record revenue and lower expense. Transaction revenue was up $19 million due to 43,000 more trades per day. Asset-based revenue was up $11 million on balance growth, again, primarily due to the IDA which grew $6 billion over the quarter. Expenses are down sequentially, as they were elevated in the September quarter of 2016.

Let's move to the next slide. Net interest revenue for the quarter was $151 million, down $3 million or 2% from last year, due primarily to weakness in net stock lending offset by higher revenue related to segregated and corporate cash balances. Margin revenue was relative flat as repricing from the December 2015 rate increase was largely offset by unfavorable mix as balances skewed towards higher balance tier barrowers.

Net stock lending was $33 million in the quarter, down $8 million year-over-year and $4 million sequentially, as there was light demand and a quiet IPO market. With the December 2016 Fed move, we increased margin pricing by 25 basis points on borrowers with negotiated pricing, but left all other margin pricing intact. Benefits will begin to flow through the financials next quarter.

Let's now move to the next slide. IDA revenue was $245 million, up $18 million or 8% year-over-year, due to balanced growth. Average balances are up $13 billion or 16% year-over-year due to new account growth, net new asset growth and lower net buying activity; a significant increase. Net yields were flat sequentially, as the steepening yield current mitigated the expected compression from maturities.

Interest rates increased significantly post-election with the 10-year treasury up 54 basis points. In fact, if you look at our rate charts in the Appendix, the long end of the yield curve is above the high end of our guidance ranges for the year. This means that extensions on the latter are being placed to yield higher than we planned, even as the best case scenario. The full benefit of these extensions takes time to be reflected in the net IDA rate, but we do expect to begin to see increases next quarter.

Due to the significant IDA inflows, we have not yet extended all of the growth, but you should expect our consolidated duration to move back towards 2.2 years over time. The December Fed move only impacted the IDA for a couple of weeks in the quarter, as it increased the net IDA rate on floating balances. With that move, floating balances received an incremental 20 basis point lift, as the management fee to TD increase by 5 basis points to the 25 basis point cap.

Before we move on, please see slide 23 in the Appendix. To help with your modeling, we have laid out how the IDA mechanics work. The table shows the net IDA rate for key maturities. Let's walk through it. The published three-month LIBOR swap rates are in the first column. But they need to be converted to one-month terms to derive the adjusted gross rate. The management fee to TD is 25 basis points across the entire portfolio. The FDIC insurance rate is currently 12 basis points. This gives you the net IDA rate excluding the client pay rate.

Based on this example, assuming our historic float versus fixed mix of 25/75, it would equate to 93 basis points for new growth after we have invested it across the latter. As fixed balances mature, we generally reinvest, like the seven-year point on the curve. That is currently a net IDA rate of 161 basis points. Over the next 12 months, we have $8.1 billion in balances maturing at an average net IDA rate of 143 basis points. So, reinvestments at 161 basis points would provide a positive lift, as would movements for float to fixed to get back to our duration target. The forward curve would indicate that future rolls in float balances should be at still higher rates, providing incremental benefit.

Let's move on to slide 15. Fee-based revenue was $94 million for the quarter, up $2 million year-over-year, as balance growth was coming from lower-yielding products. Advised balances, the combination of Essential, Selective and AdvisorDirect, are up 10% year-over-year.

Let's move on to the next slide. Interest rate sensitive asset balances were again a record at $125 billion, up $15 billion or 14% from last year, creating substantial earnings power. Cash as a percentage of total client assets ended the period at slightly under 15%, consistent with historic levels. The benefit from the market increasing rates in the December quarter is likely to exceed the $0.08 to $0.10 annual impact guidance that we provided, due to a steeper yield curve and lower pay rates than anticipated. Although we expect to earn more on this rate move than originally expected, the next move may have less benefit depending on competitive pricing.

Let's move on to the next slide to discuss expenses a bit more. Expenses are down sequentially due to notable items in the prior quarter. This quarter includes $3 million of Scottrade-related expenses. The timing of spending last year was shifted towards the last half of the year, whereas this year, the plan is smoother, except for normal seasonal trends of advertising. The year-over-year increase in the quarter was due to the timing of technology projects, which began in earnest towards the end of last fiscal year. Given the lift in revenue expected with the market increases – market rates, we would expect modest incremental technology and marketing investments above and beyond our original plans for this fiscal year.

And now, I will turn the call back over to Tim.

Timothy D. Hockey

President and Chief Executive Officer, TD Ameritrade Holding Corp.

Great. Thanks, Steve. Well, clearly, the first quarter was a pretty busy one. We've recorded some early wins supporting key corporate initiatives like our advised build-out and improving the client experience. The rise in interest rates gives us a little extra cushion that we'll use to reinvest in some of those initiatives. And with approvals coming along, integration planning for Scottrade is well underway. We've still got a lot of work to do, but we're energized by what we've accomplished and seen thus far, and we are not sitting still.

And now we'll open up to the questions. Operator, over to you.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Michael Carrier of Bank of America. Your line is open.

Michael Roger Carrier
Analyst, Bank of America Merrill Lynch

Q

All right. Thanks a lot, guys. I guess, for either of you, just the guidance on the IDA is helpful in terms of the updates given the move in rates. Just wanted to see if you can provide maybe an update on the guidance related to Scottrade, just in terms of whether it's the cash monetization or the accretion, just given that same move in rates that we've seen since the deal was announced?

Stephen J. Boyle
Executive Vice President & Chief Financial Officer, TD Ameritrade Holding Corp.

A

Yeah. So, Michael, you should be able to use the exact same table. We're going to move most of the balances at Scottrade into the IDA at close. So if you look towards when we expect to close, which we are still using our guidance of our fiscal year-end as sort of the best date to use, if you look to that forward curve and you fill in the 25/75 mix on the IDA, I think that will give you a good idea of what Scottrade will be earning going forward. The original modeling, we used a shorter duration for Scottrade, which would have had about a four-year ladder and a year-and-a-half duration. And at close, we'll make the call as to whether we want to extend longer than that. But as we view the Scottrade deposits, they seem to be very similar to our own. So we feel comfortable extending to our 2.2 year duration.

Michael Roger Carrier
Analyst, Bank of America Merrill Lynch

Q

Okay. All right, that's helpful. And then just as a follow-up, it looks like that fee-based revenues were a little lighter. And it seems like, Tim, you mentioned some of the initiatives that are going on in the fee-based or the advisory offerings. So just wanted to get a sense, like, was a lot of that occurring this quarter and that's what lowered the fee rate, or should we expect more of that trend going forward in terms of a lower fee rate, and how do you think about maybe the offset in terms of asset growth? So, just the outlook just given that there was a little bit of pressure this quarter.

Stephen J. Boyle
Executive Vice President & Chief Financial Officer, TD Ameritrade Holding Corp.

A

Yes. So, Michael, this is Steve. So, there's a number of things that go into that line item and there were some positives and negatives in the quarter. So, we're generally seeing still solid growth in balances, that includes mutual funds as well as advised products. But on the mutual fund side, we continue to see the trend towards less trailer-based fees and that's what we included in that balance number there, it's just the mutual funds with trailers.

And then on the advised asset side, we're phasing out the rebate on Amerivest when those portfolios are negative for the quarter, but we did have a few bond portfolios that were negative given the rise in rates, and so there was a very modest reserve there compared to a very modest reserve release in the prior quarter last year. So, a lot of it's just timing.

Michael Roger Carrier
Analyst, Bank of America Merrill Lynch

Q

Okay. Thanks a lot.

Operator: Your next question comes from Rich Repetto of Sandler O'Neill. Your line is open.

Richard Henry Repetto
Analyst, Sandler O'Neill & Partners LP

Q

Yeah. Good morning, Tim. Good morning, Steve. I knew you were asset sensitive, but now I know – I guess you're tweet sensitive as well. So, we'll be paying attention.

Timothy D. Hockey
President and Chief Executive Officer, TD Ameritrade Holding Corp.

A

Absolutely.

Richard Henry Repetto
Analyst, Sandler O'Neill & Partners LP

Q

Hey. I guess, the first question is a follow-up on the question on Scottrade and the IDA, or what their pro forma, say, IDA yield. Steve, you mentioned something about 93 basis points for new growth. I was just trying to see what you meant there, because when we do similar curves, we're coming up with that 93 basis points to 100 basis points, if you put Scottrade's $28 billion, pretty much mimicking the way you're invested now on the IDA?

Stephen J. Boyle
Executive Vice President & Chief Financial Officer, TD Ameritrade Holding Corp.

A

Yeah. So, 93 basis points would be a current rate. So, if you used, say, the forward curve and you looked at what we would expect rates to be at close, you'd have a higher number. I think that's probably the difference.

Richard Henry Repetto
Analyst, Sandler O'Neill & Partners LP

Q

Okay. Right. But 93 basis points – in other words, you had, I think, it was 55 basis points before. So, this is 70%. You'd expect to get incrementally 70% more revenue from Scottrade and the IDA on that $28 billion right at current rates right now?

Stephen J. Boyle
Executive Vice President & Chief Financial Officer, TD Ameritrade Holding Corp.

A

Yes.

Richard Henry Repetto
Analyst, Sandler O'Neill & Partners LP

Q

Okay. Okay. And then my follow-up question is on marketing. And you said some normal seasonal marketing trend. I didn't quite see that this quarter, because I went – you had $11 million decrease quarter-over-quarter in marketing. Normally, we see an up-tick going into the calendar fourth quarter. And I think I looked back, there's only been one time in 15 years where it actually down-ticked better than this year. So, trying to understand why marketing went down quarter-to-quarter.

Stephen J. Boyle
Executive Vice President & Chief Financial Officer, TD Ameritrade Holding Corp.

A

Yeah. So, we did have a modest decline this quarter. What I was alluding to was next quarter. We typically see a $20 million to $30 million increase in marketing spend on a linked-quarter basis in the March quarter, and that's what I was trying to get at.

Richard Henry Repetto
Analyst, Sandler O'Neill & Partners LP

Q

And I guess, just, normally you have to spend, I think, marketing dollars ahead of account acquisition. So just trying to understand why the pullback before the beginning of the year? Again, it hasn't been the history of Ameritrade to pull back in the calendar fourth quarter marketing.

Timothy D. Hockey
President and Chief Executive Officer, TD Ameritrade Holding Corp.

A

Yeah. So, Richard, it's Tim. So, there's no message here about pulling back on marketing spend. Our head of marketing would say that in those fourth quarter and the first quarter that we essentially had a little bit more efficient spend for what we're looking to do. But that will be a driver of our increase in OpEx next quarter as we seasonally adjust it up by a lot. And we've actually just launched a new campaign that literally just went out, I think last week.

Richard Henry Repetto
Analyst, Sandler O'Neill & Partners LP

Q

Got it. Okay. Thank you.

Operator: Your next question comes from Chris Harris from Wells Fargo. Your line is open.

Chris M. Harris
Analyst, Wells Fargo Securities LLC

Q

Thanks, guys. Couple of questions on Scottrade. Curious to get your early feedback from what Scottrade customers, employees are saying and feeling about the merger. And then, is Scottrade experiencing any elevated level of customer attrition as a result of the deal announcement?

Timothy D. Hockey
President and Chief Executive Officer, TD Ameritrade Holding Corp.

A

So, it's Tim. So, I would say the reaction from the employees and associates at Scottrade has been typical. But then as being typical, it's obviously nerve-racking when you find out originally that your company is being bought. But we spent a lot of time in St. Louis with the team, a lot of time communicating as we can, given where we are in the approval process, about what's going to happen.

Our commitment to all of our associates, not just obviously Scottrade, is to be very open and transparent, honest with what our assessment is. So, the reaction with associates so far has been quite good. With clients, obviously, there's some – a little bit of nervousness, only because they don't know what's going to happen yet. And so that won't be coming in terms of communication until later on in the process.

In terms of client activity and attrition, I think, Scottrade has seen many of the same industry effects that we all have in the last quarter, it's been busy for them as well, and so far it's business as usual, and obviously we're thrilled with where we are in this stage and we're looking forward to getting to close.

Chris M. Harris
Analyst, Wells Fargo Securities LLC

Q

Very good. And a quick follow-up on the outlook. You guys mentioned running above the high end of the guidance for NIM and IDA. I think – what, your guidance, 138 basis points of NIM, 1% on IDA, is it possible to get any more clarity on that, maybe how far above those numbers do you think you're trending right now?

Stephen J. Boyle
Executive Vice President & Chief Financial Officer, TD Ameritrade Holding Corp.

A

Yeah. So, this is Steve. So, actually, what I said was that the forward curve is above the rate ranges that we said in our guidance, if you look in the package on page, I think, it's 25 in the appendix, you'll see that. We're not updating our guidance on the IDA, although I think I did mention in my remarks that both the balances and the rates are certainly trending very positively, and so there's lot of opportunity to do better there. But we're not giving specific guidance on those numbers. Historically, we only change our guidance if we're sure we're going to exceed the maximum of the EPS range.

Chris M. Harris
Analyst, Wells Fargo Securities LLC

Q

Okay. Got you. Thank you.

Operator: Your next question comes from Chris Shutler from William Blair. Your line is open.

Chris Charles Shutler
Analyst, William Blair & Co. LLC

Q

Hey, guys. Good morning. Tim, what are your thoughts on, I guess, proprietary products in conjunction with that moving more into proprietary – moving more into those with your advice solutions? You mentioned TD Investment Management. Maybe just expand on that a bit and how your thinking is evolving, particularly on the perception of channel conflict with your RIAs. Thanks.

Timothy D. Hockey
President and Chief Executive Officer, TD Ameritrade Holding Corp.

A

Yeah. Traditionally, obviously, TD Ameritrade has been an open-architecture's shop, and we believe that our clients have really placed a lot of value in that. And where we're setting that I would say, and partly because when we actually go out and ask our clients, they often tell us that in fact they trust the TD Ameritrade brand, and so they would be willing to consider a branded product. So, we're taking a look at that as a potential, but we're still thinking about it.

Chris Charles Shutler
Analyst, William Blair & Co. LLC

Q

Okay. And then if you guys look at NNA growth, both on the retail and RIA sides of the business, can you give us a sense as how much of it's coming from existing TD Ameritrade customers? And what are the, I guess, biggest points of emphasis the company is trying to – what are the biggest initiatives to try to drive wallet share higher? Thank you.

Timothy D. Hockey
President and Chief Executive Officer, TD Ameritrade Holding Corp.

A

I actually don't know the split of existing versus new for the quarter, either retail or institutional, and I don't know that we disclosed that, but it's probably on par. The story this quarter, of course, is that, obviously, record quarter. But obviously, it was much higher driven by institutional than retail.

I'm sorry. The second part of the question? And what initiatives are we doing to drive that?

Chris Charles Shutler
Analyst, William Blair & Co. LLC

Q

Yeah.

Timothy D. Hockey
President and Chief Executive Officer, TD Ameritrade Holding Corp.

A

Well, it's really some of the things that I talked about in my speech was the launch of some of our newer products on the advisory side. We're obviously anticipating the great addition of all of the additional teams that will be coming as a part of the Scottrade acquisition and our additional branches, because we know that that's a net growth and an opportunity for us.

So, we've got some product gaps to fill in, which we're doing as fast as we can, and obviously, planning for the Scottrade integration. I can't tell you that this past quarter, in doing some of the research, we've seen some interesting activity in terms of the types of flows, and we're wondering how much of that might be related to the start of the DOL discussions, but we just don't know yet. It's too early. So, we're watching closely.

Chris Charles Shutler
Analyst, William Blair & Co. LLC

Q

Okay. Thank you.

Operator: Your next question comes from Conor Fitzgerald from Goldman Sachs. Your line is open.

Conor Fitzgerald
Analyst, Goldman Sachs & Co.

Q

Good morning. On expenses, I want to make sure I heard, Steve, correctly that you expect expenses above the high end of the range given the better revenue environment. And then assuming I heard you correctly there, any way to help us size the magnitude or is there anything from a Scottrade integration expense that's impacting that number?

Stephen J. Boyle
Executive Vice President & Chief Financial Officer, TD Ameritrade Holding Corp.

A

Yeah. Conor, so, let me quickly just clarify that. We expect to be well within the guidance ranges for the year. I think just relative to our original plans, we're going to make some modest investments, probably less than or around 1% of our total expenses. So, probably less than $20 million in sort of incremental expenses versus what we would have normally thought. We do pre-close, expect to have some modest expenses related to Scottrade integration, but probably we saw $3 million this quarter. We probably expect less than $10 million before some of the big numbers start coming in when we actually closed the deal.

Conor Fitzgerald
Analyst, Goldman Sachs & Co.

Q

Got it. Okay. And then just a follow-up on the IDA. So it sounds like you have some positive reinvestment trends this year as you reinvest the $8 billion at higher rates, get benefit from the Fed hike. But it also seems like maybe longer-term, you have pressure given your new money yields are at 93 basis points at the current rate. So, just wanted to make sure I was thinking about the path of IDA correctly. It sounds like we could be inflecting in the near-term for 2017, but longer-term, as you're in the tougher comps from the reinvestment side, see pressure in some of the out-years. Am I thinking about that the right way?

Stephen J. Boyle
Executive Vice President & Chief Financial Officer, TD Ameritrade Holding Corp.

A

Yeah. I think if you just purely look at the yield, I think that makes sense. I think growth is a positive thing for earnings. And so, as you're growing, you're going to have a lower average rate that you're investing at as opposed to just rolling over your existing maturities. But I think your math is correct. It feels pretty positive to us.

Conor Fitzgerald
Analyst, Goldman Sachs & Co.

Q

Got it. And then maybe one more just quick one for Tim if I could. Just want to follow up on your comments on retail investors reengaging. It's interesting that's happening at a time where cash as a percent of client assets has ticked up. Just wondering if your anticipation is the clients may redeploy some of that cash back into the market, or you view kind of in the tweet-centric world that more retail engagement being more velocity or higher turnover with some of their position?

Timothy D. Hockey
President and Chief Executive Officer, TD Ameritrade Holding Corp.

A

Good question. My sense what happened certainly post-election was that the less active traders reengaged. There is a significant up-tick in our non-active trader segment. And so in other words, they saw the results of the election, then they said, all right, and it's time to take a look at my portfolio, maybe it's been a while, reposition, and I mean that's why you saw some of the sector rotation you did.

Going forward, I think you'll see that actually activities start to peter out a little bit as people are now positioned, but generally, my sense is that you're going to see a more volatile set of market conditions over the next little while and that will drive more activity.

Stephen J. Boyle
Executive Vice President & Chief Financial Officer, TD Ameritrade Holding Corp.

A

Yeah. I think too, Conor. One of the – this is Steve, one of the things that we tend to see with our retail clients, they tend to be a bit contrarian. So as the market moved up sharply, they tended to move out of the market a little bit. So, I think it depends maybe what the direction of the market might be as we move forward. And so we're watching that very closely.

Conor Fitzgerald
Analyst, Goldman Sachs & Co.

Q

Thanks for taking my questions.

Operator: Your next question comes from Devin Ryan from JMP Securities. Your line is open.

Devin P. Ryan
Analyst, JMP Securities LLC

Q

Tim, Steve. Want to come back to the comment, Tim, you made about financial advisors ready to make a move. We've heard recently from some others in the industry that they've actually seen a slowing in movement, just given all the uncertainty around the DOL rule. So I'm just curious what you're seeing drive that sentiment today?

And then looking at that business and the flows you're seeing there, does it feel like it's coming more from market share gains of existing RIAs, where you're just winning incremental business, or the new flows from advisers that are moving into the RIA space just along with that secular shift of assets into the channel?

Timothy D. Hockey
President and Chief Executive Officer, TD Ameritrade Holding Corp.

A

Yeah. I'll take the second question first. And as I said a little earlier, I can't actually tell you the split between new or not, just off the top of my head, and I don't think we actually disclosed. But I can tell you that generally, the institutional business is almost on fire on all cylinders. So, on the first point about slowing of activity, because the discussions with RIAs or breakaway brokers or potential RIAs is a long sales cycle, if you can imagine, it's a multi-year discussion and it's quite a big decision for our newest clients, the DOL discussion about getting prepared and the implications it would have on their business models has probably spurred on some of those conversations. And the business, I think, is doing a great job of attracting new clients on its own.

So, our sense is that that's actually been a little bit of a catalyst for some final movement, notwithstanding the latest discussions as to whether it will be delayed or repealed. If you're someone who's considering this and has been taking a look at the potential impact, now might be the time to move.

So, it's been part of our effect. I wouldn't say it's been the overarching. I'd say just the general innovation, client centricity and great customer care that the institutional business gives has been the largest driver of the growth there.

Devin P. Ryan
Analyst, JMP Securities LLC

Q

Okay. That's interesting. Thank you. And then within sec lending, that's been a little bit of a softer contributor over the past several quarters. And I know you called that out. Though, you have had some nice quarters over the past year there, I know that can bounce around. But just curious, your view, does it feel like we're like kind of below the baseline here in that area or does it feel like we're at a pretty good level here, just thinking about modeling going forward, just given that it's kind of bounced around here and it does feel like it's been a little bit softer the past several quarters?

Stephen J. Boyle
Executive Vice President & Chief Financial Officer, TD Ameritrade Holding Corp.

A

Yeah. So, this is probably the hardest item for us to predict going forward. It's clearly towards the low end of where we've been over the last few years. So hopefully there's some upside there, but the indicators that we look at, the IPO market and some other things, don't look particularly strong right now. So, we're being fairly cautious about that.

Devin P. Ryan
Analyst, JMP Securities LLC

Q

Got it. Okay. Thanks for taking my questions.

Operator: Your next question comes from Dan Fannon from Jefferies. Your line is open.

Daniel Thomas Fannon
Analyst, Jefferies LLC

Q

Thanks. Steve, you mentioned the forward impact of rates. This hike in December having a bit higher above the range, and then going forward over the next half being potentially lower based on competitive dynamics. I guess, can you expand on the competitive dynamic component? Is that something that's happening already, or how we should think about that playing out?

Stephen J. Boyle
Executive Vice President & Chief Financial Officer, TD Ameritrade Holding Corp.

A

Yeah, Dan. I don't think there's anything particular that we know. I think we're just trying to say that we did better this time, but we can't guarantee that we're going to do better in the future.

Daniel Thomas Fannon
Analyst, Jefferies LLC

Q

But all else equal, based on where rates are trading, where rates are today, the next – that should continue – that your guidance range should improve considerably?

Stephen J. Boyle
Executive Vice President & Chief Financial Officer, TD Ameritrade Holding Corp.

A

Yeah. I would stick with the original range probably if you're trying to predict things.

Daniel Thomas Fannon
Analyst, Jefferies LLC

Q

Okay. And then just the growth in the IDA balances was rather strong in the quarter, I guess. Any outlook in terms of kind of the near-term – I understand you obviously aren't changing your guidance for the full year, but kind of the near-term growth expectations expected? Should we expect them to continue to be strong based on current trends?

Stephen J. Boyle
Executive Vice President & Chief Financial Officer, TD Ameritrade Holding Corp.

A

Yeah. I think that really relates to the question we had before on what are our retail clients going to do? Are they going to dive back into the market or are they going to stay with a little bit higher cash? It's not high really by historical standards, but a little bit higher than it's been in the last couple of years. And so, that's what we're watching closely here. And so, we'll see. I think it's a pretty fluid market right now. We've got the inauguration on Friday, so I think that's something we're going to watch over the next few months. We're trying to sit back and make sure that we assess whether those funds that have come out of the market are going to stay in cash or not. And so, we'll take a few months to look at that. And I think we'll have a better idea probably next quarter when we talk to you.

Daniel Thomas Fannon
Analyst, Jefferies LLC

Q

Great. Thank you.

Operator: Your next question comes from Michael Cyprys from Morgan Stanley. Your line is open.

Michael J. Cyprys
Analyst, Morgan Stanley & Co. LLC

Q

Hi. Good morning. Thanks for taking the questions. Just wanted to turn back to Scottrade acquisition just for a moment. I think you had said previously that the acquisition would be dilutive in year one by about 7% to 12% or so. I guess just given the move up in rates and just more broadly, just curious what it would take for that to move towards breakeven in year one instead, what would need to happen?

Stephen J. Boyle
Executive Vice President & Chief Financial Officer, TD Ameritrade Holding Corp.

A

Yeah. So, really don't want to get into updating the guidance every time. I think we tried to give the detail on how we calculate the numbers, and rates move around a lot every day. So, I don't think we're going to give updated guidance.

Michael J. Cyprys
Analyst, Morgan Stanley & Co. LLC

Q

But even putting any sort of updated guidance aside, even just putting, for the moment, any sort of movement in rates, just curious in terms of the moving dynamics behind what's driving some of that dilutive impact in year one and if there's anything that could happen that theoretically could make it breakeven [indiscernible] (43:24)?

Stephen J. Boyle
Executive Vice President & Chief Financial Officer, TD Ameritrade Holding Corp.

A

Yeah. I mean, the big variables obviously are the synergies. Synergies, I think we've said on the call before, we'll get about a quarter of those synergies at legal close and the rest of them pretty much right at the conversion. And so, the movement in those dates obviously would have a significant impact on the accretion. But right now, we're not changing our outlook on those dates. Rates moving up obviously would be very significantly positive for the accretion and we've given you the tools to calculate that and that will move up and down over time. It's highly dependent on the level of rates at close. And so, we don't want to give big changes in the guidance and then have market rates move up and down as we're getting closer to close. But those would be clearly the two most significant items.

Michael J. Cyprys
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thank you. That's helpful. And just as a second question here. Just in terms of the strength in organic growth that you had this quarter, just any other additional color you could share? And then along with that, how should we think about the split between the flows and the client assets this quarter between retail and institutional?

Timothy D. Hockey
President and Chief Executive Officer, TD Ameritrade Holding Corp.

A

Well, I think we're obviously quite happy with the growth overall. As we said, we're back into annualized double-digit territory, which is great. The shift, as we said, between retail and institutional did skew more to institutional and that's probably because they had a record and very strong results. And as I said, what we saw was an up-tick in client engagement, new, what we call, gross ins on retail side, which is net new dollars in, but we also saw an up-tick in the outs as well. And the color would be, we think about more as what's called soft attrition, in other words, sort of call it, cheques being written on the account to go and purchase things, make investments in a new car or a home renovation, different than what we would call hard attrition which is sort of accounts transferred out.

And so, we're watching that closely, and we're seeing whether that's, call it, the wealth effect with the Dow hitting almost 20,000 and all of those things, we're just sort of interested to see what will happen from here as we fill out the rest of our gaps from a product point of view and increase our distribution model.

Michael J. Cyprys
Analyst, Morgan Stanley & Co. LLC
Q

Okay. Thank you.

Operator: Your next question comes from Doug Mewhirter from SunTrust. Your line is open.

Doug R. Mewhirter
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Hi. Good morning. Just had one or two questions. The first, you obviously had a very nice November because of the elections in terms of your DARTS. I don't know if I caught a few monthly results in the release or I dismissed it, but did they trail off in December? I noticed some competitors had a relatively soft December because the market volatility kind of trailed off from there.

Stephen J. Boyle
Executive Vice President & Chief Financial Officer, TD Ameritrade Holding Corp.
A

Yeah, November was great. December chilled down a little bit. January to-date is pretty consistent with sort of the average of the two.

Timothy D. Hockey
President and Chief Executive Officer, TD Ameritrade Holding Corp.
A

And I think we're seeing five weeks for January to-date. December obviously has the holiday effect that hits the number.

Stephen J. Boyle
Executive Vice President & Chief Financial Officer, TD Ameritrade Holding Corp.
A

Yeah, December was 484.

Doug R. Mewhirter
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Okay. Thanks. And my second question, was there any – just looking at the numbers, your IDA had a really strong growth. Your money market funds were comparatively lighter. Do you often get migration between the two accounts or is it just a matter of what's growing faster than the other?

Stephen J. Boyle
Executive Vice President & Chief Financial Officer, TD Ameritrade Holding Corp.
A

Yeah. Historically, there's not much movement, but with the changes in some of the mutual fund regulations, we did have a couple of billion move-out of the money funds since the IDA.

Doug R. Mewhirter
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. Great. Thanks. That's all my questions.

Operator: Your next question comes from Steven Chubak from Nomura Instinet. Your line is open.

Steven Chubak
Analyst, Nomura Securities Co., Ltd.

Q

Hi. Good morning. So, Steve, I had a follow-up question regarding some of the Scottrade IDA guidance. I appreciate all the detail you guys has provided. But I know the guidance that you provided suggested that you had earned about 93 basis points if cash was deployed at current rates. And I'm wondering whether that guidance actually contemplates the higher-duration target of maybe 2-plus years that you were alluding to, or if that's based on the original deployment assumptions of around 1.4 years. And since I know you've gotten a lot of questions on this topic, it might also just be helpful if you guys would provide a more explicit IDA yield if the Scottrade deal closed on 9/30 and based on the forward curve and where it stands today.

Stephen J. Boyle
Executive Vice President & Chief Financial Officer, TD Ameritrade Holding Corp.

A

Yes. So, the 93 basis points that I gave was really trying to get at what our new growth would be. So that was at our duration. Scottrade would be slightly less if you looked at it that way. And we'll take into consideration providing additional guidance in the future.

Steven Chubak
Analyst, Nomura Securities Co., Ltd.

Q

Understood. And just one follow-up from me on the sec lending side, it's certainly been an area where we've seen some near-term pressure. And, Steve, you alluded to on this lower IPO market being a factor. I know that a lot of the bigger banks had actually been guiding to a more constructive outlook for ECM in the IPO market. Do you have a sense as to how we should be thinking about what's a normal revenue run rate for that particular business, if we do, in fact, see some normalization in the IPO market?

Stephen J. Boyle
Executive Vice President & Chief Financial Officer, TD Ameritrade Holding Corp.

A

Yeah. It's really challenging. A lot depends on the collateral that our customers have. If there's an IPO, what kind of an allocation our customers get. So, it really is very difficult for us to predict that. It tends to be concentrated in a few hot stocks for us, and it's hard to predict [ph] what the supply dynamics are going to be (49:36).

Steven Chubak
Analyst, Nomura Securities Co., Ltd.

Q

Well, we see the Snapchat IPO in the coming year. Thanks for taking my questions.

Stephen J. Boyle
Executive Vice President & Chief Financial Officer, TD Ameritrade Holding Corp.

A

Thank you.

Operator: Your next question comes from Brian Bedell from Deutsche Bank. Your line is open.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Good morning, folks.

Timothy D. Hockey
President and Chief Executive Officer, TD Ameritrade Holding Corp.

A

Hi.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Let me just come back to the IDA, it sounds of course like the guidance is relatively conservative given the forward curve. But maybe if you can talk a little bit about the client pay rates and deposit pricing. Obviously, you said the next move will – you'll be passing on more. But can you sort of characterize what you think is a reasonable range of the deposit betas to Fed moves as you see it over the course of the year and talk about the difference between the institutional side and the retail side?

Stephen J. Boyle
Executive Vice President & Chief Financial Officer, TD Ameritrade Holding Corp.

A

Yeah. So, typically we would – the betas will be highest on the institutional side, and then less on the retail IDA and lower still on the retail fee credits. I think we've said historically our terminal betas are sort of around 40 on a blended basis, but we'll do a little bit or share a little bit less than that, as we are sort of restoring historic margins. And so we're really working closely at the market and what competitors are moving and where we stand there. And so my guess is that that, we don't continue to pay this, it'll continue to increase over time, but they've been fairly modest so far.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. That's helpful. And then just with respect to the futures trading, I'm not sure, did you just – I may have missed this, but futures trading as a percentage of the DARTS and if you can do that for November and December, just to get a sense of the election trajectory?

Stephen J. Boyle
Executive Vice President & Chief Financial Officer, TD Ameritrade Holding Corp.

A

For the quarter, it's about 10%.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

For the whole quarter. And that would – has that elevated in November and December relative to October, I assume?

Stephen J. Boyle
Executive Vice President & Chief Financial Officer, TD Ameritrade Holding Corp.

A

It's certainly elevated around those certain events, right? Any time that we see a world effect happens post market close, we see elevated activity. Obviously, the example we used was the election results, because when the returns were coming in. But, we saw the same effect around Brexit.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.
Q

Right. So, normalized for events. Of course, it's always events, you would say I think going into this year, you would still think it'd be less than 10% I think within the mix?

Stephen J. Boyle
Executive Vice President & Chief Financial Officer, TD Ameritrade Holding Corp.
A

Tough to say, but I can tell you the percentage of clients and the numbers of clients that are using those vehicles, they're certainly growing at a decent clip. I think it was up something like 20% last year-over-year in the quarter. And so, the clients are finding these interesting vehicles both on a timeliness basis and ability to manage for world events and also to manage risks. So, it's becoming – with the education tools and the platforms that we can provide our clients, it is becoming more and more compelling for retail investors.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.
Q

And you're seeing more in the equity index? Or I know, historically, it's been very strong within WTI with oil trading. But I assume...

Stephen J. Boyle
Executive Vice President & Chief Financial Officer, TD Ameritrade Holding Corp.
A

Absolutely. Indexes, oil, those are by far the most popular vehicles.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.
Q

Right. Okay. Great. Thank you.

Operator: Your next question comes from Mac Sykes from Gabelli. Your line is open.

Macrae Sykes
Analyst, Gabelli and Company
Q

Good morning. Could you go over the importance of the branch network in the expansion with Scottrade in a world of rising digital engagement? What are the big factors you're considering in terms of importance? Is it asset gathering, client service, overall branding visibility? Thanks.

Timothy D. Hockey
President and Chief Executive Officer, TD Ameritrade Holding Corp.
A

Sure. Well, as you know, we, before the deal have 100 branches and Scottrade has 500 branches and we think after we've done the integration, we'll settle in in the 400 to 450 range. When we were going through the discussions with Scottrade, it became apparent to us that we liked the distribution model which I consider to be both high tech and high touch. There were some real value, and we were able to see it through due diligence of their distribution model, and we thought it was quite additive to our own in terms of those market centers that were smaller but still had a lot of client coverage, and our existing clients we think would find value with having a local now post-integration TD Ameritrade branch available to them.

So, we like the model. The branches are smaller than the TD Ameritrade branches on balance, and so therefore the distribution cost is lower for us. But we really do see a market penetration effect when we compare our branch distribution system to theirs.

So, in a world where Amazon is opening up its own retail bricks-and-mortar stores, we think everybody is realizing that the best distribution model is one that combines the best of both high tech and high touch.

Macrae Sykes
Analyst, Gabelli and Company

Q

Thank you.

Operator: Your next question comes from Chris Allen from Buckingham. Your line is open.

Chris Allen
Analyst, The Buckingham Research Group, Inc.

Q

Good morning, guys. I think that most questions have been asked. I guess one question, you kind of noted the outlook for the next hikes and the potential of lessening impact from an increasing competitive environment. Have you seen any changes from competitive environment, given the last rate hike, either greater competition around active traders or anything on marginal lending or is it just around kind of waiting at the moment to see how it filters through?

Timothy D. Hockey
President and Chief Executive Officer, TD Ameritrade Holding Corp.

A

Nothing yet. Obviously, we're all seeing – the industry is seeing a number of effects, rate hike being one, increased trade activity, and of course, we had the holidays in there. And so I would say, it's competitive as always has been. But there's been no shift as a result of the December hike.

Chris Allen
Analyst, The Buckingham Research Group, Inc.

Q

Great. Thanks, guys.

Operator: We have no further questions at this time. I will turn the call over to the presenters.

Timothy D. Hockey
President and Chief Executive Officer, TD Ameritrade Holding Corp.

Great. Well, obviously, it's been a great quarter from our point of view. I appreciate everybody coming and having the call with us. We've got lots of work to do, and we've got lots of things to get done between now and the end of the year, hopefully, in anticipation of the close with Scottrade as soon as we can.

So, thanks very much for you being on the call.

Operator: This concludes today's conference call. You may now disconnect.