

**STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT**

IN THE MATTER OF:)
)
TD Ameritrade, Inc.,)
) **No. 0900001**
)
Respondent.)
_____)

NOTICE OF HEARING

TO THE RESPONDENT: TD Ameritrade, Inc.
c/o its attorney
Richard J. Morvillo
Morvillo LLP
1101 17th Street, NW
Washington, DC 20036

You are hereby notified in accordance with Sections 11.E and F of the Illinois Securities Law of 1953 [815 ILCS 5/11.E and F] (“the Act”) and 14 Ill. Adm. Code 130, subpart K, that a public hearing will be held at the Secretary of State’s office at the office of the Illinois Securities Department, 69 W. Washington Street, Suite 1220, in Chicago, Illinois 60602, on October 31, 2012 or as soon thereafter as possible before Soula Spyropoulos, or such other hearing officer who shall be presiding at that time.

Said hearing will be held to determine whether an Order shall be entered pursuant to Section 11.E of the Act sanctioning the Respondents and/or granting such other relief as may be authorized under the Act including, but not limited to, the imposition of a monetary fine in the maximum amount pursuant to Section 11.E of the Act, payable within ten (10) business days of the entry of the Order.

The grounds for this proposed action are as follows:

1. Respondent TD Ameritrade, Inc. (CRD #7870) (“Ameritrade” or “Respondent”) was, at all times material herein, a New York corporation with its principal place of business at 1005 N. Ameritrade Place, Bellevue, Nebraska 68005.

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2. Respondent is in the business of effecting transactions in securities in Illinois as a “dealer” within the meaning of the Act

3. Respondent maintains branch offices in Illinois.

4. Respondent has and has had customers (Customers or TD Customers) located across the United States of America, including Illinois.

5. Prior to February 13, 2008, Respondent solicited and sold to TD Customers financial instruments known as auction rate securities (“ARS”) to at least one resident of Illinois.

ARS

6. ARS are bonds or preferred stocks that have interest rates or dividend yields that are periodically reset through an auction process, typically every seven (7), twenty-eight (28), or thirty-five (35) days.

7. ARS are usually issued with thirty (30) year maturities, but ARS maturities can range from five years to perpetuity.

8. ARS can be attractive investments to investors because ARS may offer slightly higher yields than various alternative products, including forms of cash alternative products.

9. An ARS yield is determined by the periodic auctions (commonly referred to as “Dutch” auctions) during which ARS are auctioned at par.

10. ARS typically can only be bought or sold at par at one of these periodic Dutch auctions.

11. Under the typical procedures for an ARS auction in effect prior to February 13, 2008, an investor, including TD Customers, who wished to purchase ARS at auction, submitted a bid that included the minimum interest or dividend rate that the investor would accept.

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12. ARS holders could either choose to keep their securities until the next auction or submit offers to sell their ARS.

13. An auction agent collected all of the bids and offers for a particular auction.

14. The final yield rate at which the ARS were sold was the “clearing rate” and the clearing rate applied to that particular ARS until the next auction.

15. Bids with the lowest rate and then successively higher rates were accepted until all ARS sell orders were filled.

16. The clearing rate was the lowest rate bid sufficient to cover all ARS offered for sale in the auction.

17. If there were not enough bids to cover the ARS offered for sale in an auction, then an auction would fail.

18. In a failed auction, investors, including TD Customers, who want to sell, are not able to do so and such investors must hold their ARS until at least the next auction.

19. In the event of a failed auction, an ARS issuer pays the holders a maximum rate or “penalty” rate, which is either a flat rate or a rate based on a formula set forth in the ARS offering documents.

20. Penalty rates might be higher or lower than the prior clearing rate or market rates on similar products.

21. Due to various market conditions in the early part of 2008, many of the broker-dealers that acted as underwriters of the ARS offerings or as lead managers for the ARS auctions stopped submitting their own bids in support of the ARS auctions.

22. As a result, by February 13, 2008, the ARS market began to experience widespread auction failures, leaving ARS investors, including TD Customers throughout the United States of America, unable to sell their ARS holdings.

23. On February 13, 2008, through the date of this Order, the ARS market has continued to experience widespread failures, making ARS holdings illiquid.

24. Some ARS have been redeemed by their issuers since February 13, 2008, however, thousands of ARS investors, including TD Customers, who currently hold ARS have been unable to sell through the auction process.

25. TD Customers currently hold hundreds of millions of dollars in illiquid ARS that they are unable to sell through the auction process.

Respondent's Role in the ARS Market

26. To facilitate the auction process, issuers of ARS selected one or more broker-dealers to underwrite an offering and/or manage an auction process.

27. In many instances, these chosen broker-dealers submitted their own bids to support the ARS auctions and to prevent the auctions from failing.

28. Respondent did not act as an underwriter, manager, or agent for any issuer of ARS.

29. As a distributing or "downstream" broker-dealer, Respondent did not submit bids in an effort to support any of the ARS auctions or to prevent them from failing.

30. Respondent also did not hold any significant inventory of ARS in its broker-dealer house account(s).

31. Respondent acted solely as an agent, both on a solicited and unsolicited basis, for TD Customers by submitting their bids to purchase and orders to sell ARS.

32. Respondent received revenue, including fees for acting as an agent for customers in connection with ARS.

Respondent's ARS Sales to TD Customers

33. In soliciting TD Customers to purchase ARS prior to the middle of February 2008, Respondent's registered representatives made inaccurate comparisons between ARS and other investments, such as certificates of deposit or money market accounts, telling customers that ARS were similar investments but with a slightly higher yield.

34. In soliciting TD Customers to purchase ARS prior to the middle of February 2008, Respondent's registered representatives also did not accurately characterize the investment nature of ARS since ARS are highly complex securities that are very different from money market funds or certificates of deposit, as evidenced by, among other things, the dependence of ARS on successful auctions for liquidity.

35. Respondent's registered representatives also did not provide customers with adequate and complete disclosures regarding the complexity of the auction process and the risks associated with ARS, including the circumstances under which an auction could fail.

36. Respondent's registered representatives did not adequately disclose to TD Customers that the Customer's ability to liquidate the ARS depended on the willingness of other investors to buy the instruments at an auction.

37. The information described in Paragraphs 33 through 36 was material to TD Customers.

38. Respondent was aware that its registered representatives marketed ARS to customers as liquid and as an alternative to cash, certificates of deposit, or money market funds without adequately disclosing that ARS are complex securities that may become illiquid.

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39. By engaging in the acts and conduct set forth in paragraphs II.2 through II.38, Respondent, in connection with the offer, sale or purchase of a security, made untrue statements of material fact or omitted to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading, in violation of Section 12.G of the Act.

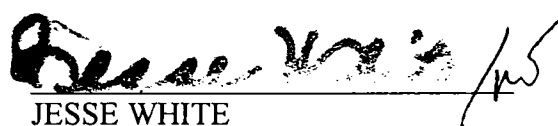
NOTICE: You are further notified that you are required pursuant to Section 130.1104 of the Rules and Regulations (14 Ill. Adm. Code 130)(the "Rules"), to file an answer to the allegations outlined above within thirty (30) days of the receipt of this Notice. A failure to file an answer within the prescribed time shall be construed as an admission of the allegations contained in the Notice of Hearing.

Furthermore, you may be represented by legal counsel; may present evidence; may cross-examine witnesses and otherwise participate. A failure to so appear shall constitute default, unless any Respondent has upon due notice moved for and obtained a continuance.

A copy of the Rules and Regulations promulgated under the Illinois Securities Law and pertaining to hearings held by the Office of the Secretary of State, Illinois Securities Department, are available at the Department's website at:
<http://www.cyberdriveillinois.com/departments/securities/lawrules.html>, or on request.

Delivery of Notice to the designated representative of any Respondent constitutes service upon such Respondent.

Dated: This 11th day of September 2012.



JESSE WHITE
Secretary of State
State of Illinois

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