CHARLES SCHWAB & CO., INC.

(SEC. I.D. NO. 8-16514)

Consolidated Statement of Financial Condition
as of December 31, 2018
and Report of Independent Registered
Public Accounting Firm

PUBLIC DOCUMENT

(Pursuant to Rule 17a-5(e)(3) under the Securities Exchange Act of 1934).

OMB APPROVAL

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

ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

SEC FILE NUMBER
8-16514

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/18 (MM/DD/YY) AND ENDING 12/31/18 (MM/DD/YY)

A. REGISTRANT IDENTIFICATION

NAME OF BROKER - DEALER:

Charles Schwab & Co., Inc.

OFFICIAL USE ONLY
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

211 Main Street
(No. and Street)

San Francisco	California	94105
(City)	(State)	(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Chris Bakke (720) 418-5569
(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Deloitte & Touche LLP
(Name - if individual, state last, first, middle name)

555 Mission Street	San Francisco	California	94105
(Address)	(City)	(State)	(Zip Code)

CHECK ONE:

☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

**Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on at the bureau of the exemption. See section 240.17a-5(e)(2).*

SEC 1410 (11-05) **Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

Deloitte.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholder and Board of Directors of Charles Schwab & Co., Inc.

Opinion on the Consolidated Financial Statement

We have audited the accompanying consolidated statement of financial condition of Charles Schwab & Co., Inc. and subsidiary (the "Company") as of December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statement"). In our opinion, the consolidated financial statement presents fairly, in all material respects, the financial position of the Company as of December 31, 2018, in conformity with accounting principles generally accepted in the United States of America (U.S.).

Basis for Opinion

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

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statement is free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statement. We believe that our audit of the consolidated financial statement provides a reasonable basis for our opinion.

Deloitte & Touche LLP

February 26, 2019

We have served as the Company's auditor since 1976.

Consolidated Statement of Financial Condition

(In Millions, Except Per Share and Share Amounts)

Assets		December 31, 2018
Cash and cash equivalents	$	2,669
Cash and investments segregated and on deposit for regulatory purposes (including resale agreements of $7,195)		13,363
Receivables from brokers, dealers, and clearing organizations		547
Receivables from brokerage clients — net		22,244
Securities owned — at fair value		429
Equipment, office facilities, and property — net		980
Goodwill		935
Other assets		891
Total assets	$	42,058
Liabilities, Subordinated Borrowings, and Stockholder's Equity		
Payables to brokers, dealers, and clearing organizations	$	1,831
Payables to brokerage clients		32,736
Accrued expenses and other liabilities		2,309
Finance lease obligation		52
Total		36,928
Subordinated borrowings due to The Charles Schwab Corporation		185
Stockholder's equity:		
Preferred stock — 3,000,000 shares authorized; $.10 par value per share; none issued		—
Common stock — 7,000,000 shares authorized; $.10 par value per share; 2,823,000 shares issued and outstanding		—
Additional paid-in capital		2,532
Retained earnings		2,413
Total stockholder's equity		4,945
Total liabilities, subordinated borrowings, and stockholder's equity	$	42,058

See Notes to Consolidated Statement of Financial Condition.

1. Organization and Nature of Business

Charles Schwab & Co., Inc. (CS&Co) is a wholly-owned subsidiary of Schwab Holdings, Inc., a wholly-owned subsidiary of The Charles Schwab Corporation (CSC). CS&Co is a securities broker-dealer with over 355 domestic branch offices in 47 states, as well as a branch in the Commonwealth of Puerto Rico. In addition, CS&Co serves clients through branch offices in the United Kingdom, Hong Kong, Singapore, and Australia through various subsidiaries.

Unless otherwise indicated, the terms “the Company,” “we,” “us,” or “our” mean CS&Co together with its wholly owned subsidiary. The accompanying consolidated statement of financial condition includes CS&Co and its wholly owned subsidiary.

The Company is registered as a broker-dealer with the United States Securities and Exchange Commission (SEC), the fifty states, the District of Columbia, and Puerto Rico, and as an investment advisor with the SEC. We are regulated by the Commodities Futures Trading Commission (CFTC) with respect to the commodity futures and trading activities we conduct as an introducing broker. Much of the regulation of broker-dealers has been delegated to self-regulatory organizations. CS&Co is a member of the Financial Industry Regulatory Authority, Inc. (FINRA), the Municipal Securities Rulemaking Board (MSRB), NYSE Arca, and the Chicago Board Options Exchange. Our primary regulators are FINRA, the MSRB for municipal securities, and the National Futures Association for futures and commodities trading activities.

2. Summary of Significant Accounting Policies

Basis of presentation

The accompanying consolidated statement of financial condition has been prepared in conformity with generally accepted accounting principles (GAAP) in the United States (U.S.), which require management to make certain estimates and assumptions that affect the reported amounts in the accompanying consolidated statement of financial condition. Certain estimates relate to valuation of tax accruals and legal and regulatory reserves. Actual results may differ from these estimates. Intercompany balances and transactions have been eliminated.

Cash and cash equivalents

The Company considers all highly liquid investments that mature in three months or less from the time of acquisition and that are not segregated and on deposit for regulatory purposes to be cash and cash equivalents. Cash and cash equivalents include money market funds and deposits with banks.

Cash and investments segregated and on deposit for regulatory purposes

Cash and investments segregated and on deposit for regulatory purposes include securities purchased under agreements to resell (resale agreements), which are collateralized by U.S. Government and agency securities. Resale agreements are accounted for as collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. The Company obtains collateral with a market value equal to or in excess of the principal amount loaned and accrued interest under resale agreements. Collateral is valued daily by the Company, with additional collateral obtained to ensure full collateralization. Cash and investments segregated also include certificates of deposit and U.S. Government securities. Certificates of deposit and U.S. Government securities are recorded at fair value. Pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934 (Customer Protection Rule), cash balances not collateralizing margin positions and not swept to money market funds or bank deposit accounts, are segregated by CS&Co for the exclusive benefit of clients.

Receivables from brokerage clients

Receivables from brokerage clients include margin loans to securities brokerage clients and other trading receivables from clients. Margin loans are collateralized by client securities and are carried at the amount receivable, net of an allowance for doubtful accounts. The Company monitors margin levels and requires clients to deposit additional collateral, or reduce margin positions, to meet minimum collateral requirements if the fair value of the collateral changes. Receivables from brokerage clients that remain unsecured or partially secured for more than 30 days are fully reserved for in the allowance for doubtful accounts, except in the case of confirmed fraud, which is reserved immediately. Clients with margin loans have agreed to allow the Company to pledge collateralized securities in accordance with federal regulations. The collateral is not reflected in the consolidated statement of financial condition. The allowance for doubtful accounts for brokerage clients and related activity was immaterial for the period presented.

Securities owned

Securities owned are recorded at fair value based on quoted market prices or other observable market data.

Securities borrowed and securities loaned

Securities borrowed transactions require the Company to deliver cash to the lender in exchange for securities; the receivables from these transactions are included in receivables from brokers, dealers, and clearing organizations. For securities loaned, the Company receives collateral in the form of cash in an amount equal to or greater than the market value of securities loaned; the payables from these transactions are included in payables to brokers, dealers, and clearing organizations. The market value of securities borrowed and loaned are monitored, with additional collateral obtained or refunded to ensure full collateralization.

Equipment, office facilities, and property

Equipment, office facilities, and property are recorded at cost net of accumulated depreciation and amortization, except for land, which is recorded at cost. Equipment, office facilities, and property include certain capitalized costs of acquired or internally developed software. Costs for internally developed software are capitalized when the costs relate to development of approved projects for our internal needs that result in additional functionality. Costs related to preliminary project and post-project activities are expensed as incurred. Equipment, office facilities, and property (other than land) are depreciated on a straight-line basis over their estimated useful lives. Estimated useful lives are as follows:

Equipment and office facilities	5 to 7 years
Buildings	20 to 40 years
Software	3 to 10 years (1)
Leasehold improvements	Lesser of useful life or lease term

(1) Amortized over contractual term if less than three years.

Equipment, office facilities, and property are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

Goodwill

Goodwill represents the fair value of acquired businesses in excess of the fair value of the individually identified net assets acquired. Goodwill is not amortized but is tested for impairment annually or whenever indications of impairment exist. Impairment exists when the carrying amount of goodwill exceeds its implied fair value, resulting in an impairment charge for this excess. Our annual impairment testing date is April 1st. The Company can elect to qualitatively assess goodwill for impairment if it is more likely than not that the fair value of a reporting unit exceeds its carrying value. A qualitative assessment considers macroeconomic and other industry-specific factors, such as trends in short-term and long-term interest rates and the ability to access capital, and Company specific factors such as market capitalization in excess of net assets, trends in revenue generating activities, and merger or acquisition activity.

If the Company elects to bypass qualitatively assessing goodwill, or it is not more likely than not that the fair value of a reporting unit exceeds its carrying value, management estimates the fair values of each of the Company's reporting units (defined as the Company's businesses for which financial information is available and reviewed regularly by management) and compares it to their carrying values. The estimated fair values of the reporting units are established using an income approach based on a discounted cash flow model that includes significant assumptions about the future operating results and cash flows of each reporting unit, as well as a market approach which compares each reporting unit to comparable companies in their respective industries.

Intangible assets

Finite-lived intangible assets are amortized over their useful lives in a manner that best reflects their economic benefit. All intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

Guarantees and indemnifications

The Company recognizes, at the inception of a guarantee, a liability equal to the estimated fair value of the obligation undertaken in issuing the guarantee. The fair values of obligations relating to guarantees are estimated based on transactions for similar guarantees or expected present value measures.

Income taxes

The Company is included in the consolidated federal income tax return of CSC. The Company provides for income taxes on all transactions that have been recognized in the consolidated statement of financial condition on a pro rata basis with CSC's other subsidiaries in the consolidated income tax return. Accordingly, deferred tax assets are adjusted to reflect the tax rates at which future taxable amounts will likely be settled or realized. The effects of tax rate changes on future deferred tax assets and deferred tax liabilities, as well as other changes in income tax laws, are recorded in earnings in the period during which such changes are enacted. Uncertain tax positions are evaluated to determine whether they are more likely than not to be sustained upon examination. When tax positions are more likely than not to be sustained upon examination the difference between positions taken on tax return filings and estimated potential tax settlement outcomes are recognized in accrued expenses and other liabilities. If a position is not more likely than not to be sustained, then none of the tax benefit is recognized in the Company's consolidated statement of financial condition.

Fair values of assets and liabilities

Fair value is defined as the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement accounting guidance describes the fair value hierarchy for disclosing assets and liabilities measured at fair value based on the inputs used to value them. The fair value hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are based on market pricing data obtained from third-party sources independent of the Company. A quoted price in an active market provides the most reliable evidence of fair value and is generally used to measure fair value whenever available.

Unobservable inputs reflect management's judgment about the assumptions market participants would use in pricing the asset or liability. Where inputs used to measure fair value of an asset or liability are from different levels of the hierarchy, the asset or liability is categorized based on the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input requires judgment. The fair value hierarchy includes three levels based on the objectivity of the inputs as follows:

- Level 1 inputs are quoted prices in active markets as of the measurement date for identical assets or liabilities that the Company has the ability to access.

- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates, benchmark yields, issuer spreads, new issue data, and collateral performance.

- Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

Assets and liabilities measured at fair value on a recurring basis

The Company's assets and liabilities measured at fair value on a recurring basis include: certain cash equivalents, certain investments segregated and on deposit for regulatory purposes, and securities owned. The Company uses the market approach to determine the fair value of assets and liabilities. When available, the Company uses quoted prices in active markets to measure the fair value of assets and liabilities. When utilizing market data and bid-ask spread, the Company uses the price within the bid-ask spread that best represents fair value. When quoted prices do not exist, the Company uses prices obtained from independent third-party pricing services to measure the fair value of investment assets.

Our primary independent pricing service provides prices based on observable trades and discounted cash flows that incorporate observable information such as yields for similar types of securities (a benchmark interest rate plus observable spreads) and weighted-average maturity for the same or similar "to-be-issued" securities. The Company does not adjust the prices received from independent third-party pricing services unless such prices are inconsistent with the definition of fair value and result in material differences in the amounts recorded.

(Tabular Amounts in Millions, Except Option Price Amounts)

New Accounting Standards

Adoption of New Accounting Standards

Standard	Description	Date of Adoption	Effects on the Consolidated Statement of Financial Condition or Other Significant Matters
Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)" and related ASUs	Clarifies that revenue from contracts with clients should be recognized in a manner that depicts the timing of the related transfer of goods or performance of services at an amount that reflects the expected consideration. Adoption allows either full or modified retrospective transition. Full retrospective transition required a cumulative effect adjustment to retained earnings as of the earliest comparative period presented. Modified retrospective transition required a cumulative effect adjustment to retained earnings as of the beginning of the reporting period in which the entity first applies the new guidance.	January 1, 2018	The guidance does not apply to revenue earned from the Company's loans and securities. Accordingly, net interest revenue was not impacted. The primary impact for the Company was the capitalization on the consolidated statement of financial condition of sales commissions paid to employees for obtaining new contracts with clients. These capitalized costs resulted in an asset of $219 million and a related deferred tax liability of $52 million upon adoption. The asset is being amortized to expense over time as the related revenues are recognized. The Company adopted the revenue recognition guidance using the modified retrospective method for all contracts that were not completed as of January 1, 2018. Further details of the impact of adoption on the consolidated statement of financial condition are included in Note 7.
ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10)" and ASU 2018-03, "Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10)"	Requires: (i) equity investments to be measured at fair value, with changes in fair value recognized in net income, unless the equity method is applied or the equity investments do not have readily determinable fair values in which case a practical alternative may be elected; (ii) use of an exit price when measuring the fair value of financial instruments for disclosures; (iii) separate presentation of financial assets and liabilities by measurement category and form of instrument on the balance sheet or in the accompanying notes. Adoption requires a cumulative effect adjustment to the balance sheet as of the beginning of the year of initial application, except for certain changes that require prospective adoption.	January 1, 2018	The adoption of this guidance did not have a material impact on the Company's consolidated statement of financial condition.

New Accounting Standards Not Yet Adopted

Standard	**Description**	**Required Date of Adoption**	**Effects on the Consolidated Statement of Financial Condition or Other Significant Matters**
ASU 2016-02, "Leases (Topic 842)"	Amends the accounting for leases by lessees and lessors. The primary change from the new guidance is the recognition of right-of-use assets and lease liabilities by lessees for those leases classified as operating leases. Additional changes include accounting for lease origination and executory costs, required lessee reassessments during the lease term due to changes in circumstances, and expanded lease disclosures. Adoption provides for modified retrospective transition as of the beginning of the earliest comparative period presented in the financial statements in which the entity first applies the new standard or prospectively with an adjustment as of the beginning of the period of adoption. Certain transition relief is permitted if elected by the entity.	January 1, 2019	The Company adopted the new lease accounting guidance prospectively as of January 1, 2019, which will result in a gross up of the consolidated statement of financial condition due to recognition of right-of-use assets and lease liabilities primarily related to CS&Co leases of office space and branches. These amounts will be based on the present value of our remaining operating lease payments. The Company's right of use assets and related lease liabilities upon adoption will be $590 million and $655 million, respectively. Due to a no action letter issued by the SEC, the impact to net capital is immaterial.

Standard	Description	Required Date of Adoption	Effects on the Consolidated Statement of Financial Condition or Other Significant Matters
ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"	Provides guidance for recognizing impairment of most debt instruments measured at amortized cost, including loans and held to maturity debt securities. Requires estimating current expected credit losses (CECL) over the remaining life of an instrument or a portfolio of instruments with similar risk characteristics based on relevant information about past events, current conditions, and reasonable forecasts. The initial estimate of, and the subsequent changes in, CECL will be recognized as credit loss expense through current earnings and will be reflected as an allowance for credit losses offsetting the carrying value of the financial instrument(s) on the balance sheet. Amends the other-than-temporary impairment (OTTI) model for available for sale (AFS) debt securities by requiring the use of an allowance, rather than directly reducing the carrying value of the security, and eliminating consideration of the length of time such security has been in an unrealized loss position as a factor in concluding whether a credit loss exists. Adoption requires a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the entity applies the new guidance except that a prospective transition is required for AFS debt securities for which an OTTI has been recognized prior to the effective date.	January 1, 2020 (early adoption permitted)	The Company continues to evaluate the impact of this guidance on its consolidated statement of financial condition. The Company has finished the majority of its scoping work and assessment of the current state of data and systems. Work is transitioning to designing and building out approaches to address certain asset classes, including receivables from brokerage clients. We are currently working on in-depth analysis to determine our methods and any needed changes to policies and procedures.

(Tabular Amounts in Millions, Except Option Price Amounts)

Standard	Description	Required Date of Adoption	Effects on the Consolidated Statement of Financial Condition or Other Significant Matters
ASU 2018-15, "Intangibles–Goodwill and Other–Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)"	Aligns the criteria for capitalizing implementation costs for cloud computing arrangements (CCA) that are service contracts with internal-use software that is developed or purchased and CCAs that include an internal-use software license. This guidance requires that the capitalized implementation costs be recognized over the period of the CCA service contract, subject to impairment evaluation on an ongoing basis. The guidance prescribes the balance sheet, income statement, and statement of cash flow classification of the capitalized implementation costs and related amortization expense, and requires additional quantitative and qualitative disclosures. Adoption provides for retrospective or prospective application to all implementation costs incurred after the date of adoption.	January 1, 2020 (early adoption permitted)	Historically, CSC has expensed implementation costs as they are incurred for CCAs that are service contracts. Therefore, adopting this guidance will change the Company's accounting treatment for these types of implementation costs. The Company is evaluating the impacts of this guidance on its consolidated statement of financial condition.

3. Receivables from and Payables to Brokerage Clients

Receivables from and payables to brokerage clients as of December 31, 2018 are as follows:

Receivables		
Margin loans, net of allowance for doubtful accounts	$	19,273
Other brokerage receivables		2,971
Receivables from brokerage clients — net	$	22,244
Payables		
Interest-bearing payables	$	21,990
Non-interest-bearing payables		10,746
Payables to brokerage clients	$	32,736

At December 31, 2018, approximately 22% of CS&Co's total client accounts were located in California.

(Tabular Amounts in Millions, Except Option Price Amounts)

4. Securities Owned

A summary of securities owned at December 31, 2018 is as follows:

Equity and bond mutual funds	$	331
State and municipal debt obligations		39
Equity, U.S. Government and corporate debt, and other securities		33
Schwab Funds® money market funds		26
Total securities owned	$	429

Equity and bond mutual funds include inventory maintained to facilitate clients' transactions in certain Schwab Funds and third-party mutual funds. State and municipal debt obligations, equity, U.S. Government and corporate debt, and other securities include securities to meet clients' trading activities. The positions in Schwab Funds® money market funds arise from certain overnight funding of clients' redemption, check-writing, and debit card activities.

5. Equipment, Office Facilities, and Property

Equipment, office facilities, and property at December 31, 2018 are as follows:

Software	$	1,680
Buildings		388
Leasehold improvements		362
Information technology equipment		205
Furniture and equipment		204
Telecommunications equipment		68
Land		50
Construction in progress		37
Total equipment, office facilities, and property		2,994
Accumulated depreciation and amortization		(2,014)
Total equipment, office facilities, and property – net	$	980

6. Goodwill

The goodwill balance did not change during the year ended December 31, 2018.

As of our annual testing date, we performed a qualitative assessment of goodwill for impairment. Based on the Company's analysis, fair value significantly exceeded the carrying value and we concluded that goodwill was not impaired in 2018.

(Tabular Amounts in Millions, Except Option Price Amounts)

7. Other Assets

The components of other assets at December 31, 2018 are as follows:

Accounts receivable [(1)]	$	253
Capitalized contract costs [(2)]		250
Prepaid expenses		116
Receivables from affiliates		100
Income tax receivable		66
Intangible assets, net of accumulated amortization of $227 [(3)]		53
Interest and dividends receivable		26
Other		27
Total other assets	$	891

(1) Receivables from contracts with customers within the scope of ASC 606 were $220 million at December 31, 2018. CS&Co does not have any other significant contract assets or contract liability balances as of December 31, 2018.
(2) Deferred contract costs relate to sales commissions paid to employees for obtaining contracts with clients. These costs are amortized to expense on a straight-line basis over a period that is consistent with how the related revenue is recognized.
(3) Future amortization over the next five years and thereafter is expected to total $53 million.

8. Payables to Brokers, Dealers, and Clearing Organizations

Payables to brokers, dealers, and clearing organizations at December 31, 2018 are as follows:

Deposits for securities loaned	$	1,184
Payables to clearing organizations		377
Payables to broker-dealers		207
Payables for securities failed to receive		63
Total payables to brokers, dealers, and clearing organizations	$	1,831

9. Borrowings

CS&Co maintains a $6.0 billion credit facility with CSC which is scheduled to expire in December 2020. Borrowings under this facility do not qualify as regulatory capital for CS&Co. There was no amount drawn under this facility at December 31, 2018. When drawn, the amount is included in accrued expenses and other liabilities on the consolidated statement of financial condition (see Note 13).

To manage our regulatory capital requirement, we maintain a $1.5 billion subordinated revolving credit facility with CSC. The facility is available for general corporate purposes and is scheduled to expire in March 2020. There was $185 million drawn under this facility at December 31, 2018 (see Note 13).

Subordinated borrowings are included in our net capital pursuant to Rule 15c3-1 under the Securities Exchange Act of 1934. Such borrowings are subordinated to the claims of general creditors and to the extent that these borrowings are required for our continued compliance with minimum net capital requirements, they may not be repaid (see Note 16).

A CS&Co subsidiary has a finance lease obligation related to an office building and land under a 20-year lease. At December 31, 2018, the carrying value of the office building and land was $58 million. The remaining finance lease obligation of $52 million at December 31, 2018, is being reduced by a portion of the lease payments over the remaining lease term through June 30, 2024. CS&Co has not directly or indirectly guaranteed, endorsed or assumed the obligations or liabilities of the above mentioned subsidiary. Accordingly, we do not consolidate the assets and liabilities of the subsidiary for purposes of our net capital computation.

(Tabular Amounts in Millions, Except Option Price Amounts)

To manage short-term liquidity, we maintain uncommitted, unsecured bank credit lines with several banks. CSC has direct access to certain of these credit lines, which if borrowed, would reduce the amount available to us. There were no borrowings outstanding under these lines at December 31, 2018.

10. Commitments and Contingencies

Operating leases and other commitments: CS&Co has non-cancelable operating leases for office space and equipment. Future annual minimum rental commitments under these leases, net of contractual subleases, at December 31, 2018 are as follows:

	Operating Leases	Subleases	Net
2019	$ 127	$ 2	$ 125
2020	121	2	119
2021	98	2	96
2022	79	1	78
2023	71	—	71
Thereafter	281	—	281
Total	$ 777	$ 7	$ 770

Certain leases contain provisions for renewal options, purchase options, and rent escalations based on increases in certain costs incurred by the lessor.

Purchase obligations: The Company has purchase obligations for services such as advertising and marketing, telecommunications, professional services, and hardware- and software-related agreements. As of December 31, 2018, the Company has purchase obligations as follows:

2019	$ 449
2020	216
2021	66
2022	28
2023	22
Thereafter	170
Total	$ 951

Guarantees and indemnifications: CS&Co has clients that sell (i.e., write) listed option contracts that are cleared by the Options Clearing Corporation (OCC) – a clearing house that establishes margin requirements on these transactions. CS&Co partially satisfies the margin requirements by arranging unsecured standby letter of credit agreements (LOCs), in favor of the OCC, which are issued by several banks. At December 31, 2018, the aggregate face amount of these LOCs totaled $225 million. There were no funds drawn under any of these LOCs at December 31, 2018. In connection with its securities lending activities, CS&Co is required to provide collateral to certain brokerage clients. We satisfy the collateral requirements by providing cash as collateral.

CS&Co also provides guarantees to securities clearing houses and exchanges under standard membership agreements, which require members to guarantee the performance of other members. Under the agreements, if another member becomes unable to satisfy its obligations to the clearing houses and exchanges, other members would be required to meet shortfalls. CS&Co's liability under these arrangements is not quantifiable and may exceed the cash and securities it has posted as collateral. The potential requirement for CS&Co to make payments under these arrangements is remote. Accordingly, no liability has been recognized for these guarantees.

Legal contingencies: The Company is subject to claims and lawsuits in the ordinary course of business, including arbitrations, class actions and other litigation, some of which include claims for substantial or unspecified damages. The Company is also the subject of inquiries, investigations, and proceedings by regulatory and other governmental agencies.

Predicting the outcome of a litigation or regulatory matter is inherently difficult, requiring significant judgment and evaluation of various factors, including the procedural status of the matter and any recent developments; prior experience and the experience of others in similar cases; available defenses, including potential opportunities to dispose of a case on the merits or procedural grounds before trial (e.g., motions to dismiss or for summary judgment); the progress of fact discovery; the opinions of counsel and experts regarding potential damages; and potential opportunities for settlement and the status of any settlement discussions. It may not be reasonably possible to estimate a range of potential liability until the matter is closer to resolution – pending, for example, further proceedings, the outcome of key motions or appeals, or discussions among the parties. Numerous issues may have to be developed, such as discovery of important factual matters and determination of threshold legal issues, which may include novel or unsettled questions of law. Reserves are established or adjusted or further disclosure and estimates of potential loss are provided as the matter progresses and more information becomes available.

The Company believes it has strong defenses in all significant matters currently pending and is contesting liability and any damages claimed. Nevertheless, some of these matters may result in adverse judgments or awards, including penalties, injunctions or other relief, and the Company may also determine to settle a matter because of the uncertainty and risks of litigation. The Company has provided a description below of one matter in which there is a reasonable possibility that a material loss could be incurred or where the matter may otherwise be of significant interest. The Company is unable to provide a reasonable estimate of any potential liability given the stage of proceedings in the matter. With respect to all other pending matters, based on current information and consultation with counsel, it does not appear reasonably possible that the outcome of any such matter would be material to the financial condition of the Company.

Crago Order Routing Litigation: On July 13, 2016, a securities class action lawsuit was filed in the U.S. District Court for the Northern District of California on behalf of a putative class of customers executing equity orders through CS&Co. The lawsuit names CS&Co and CSC as defendants and alleges that an agreement under which CS&Co routed orders to UBS Securities LLC between July 13, 2011 and December 31, 2014 violated CS&Co's duty to seek best execution. Plaintiffs seek unspecified damages, interest, injunctive and equitable relief, and attorneys' fees and costs. After a first amended complaint was dismissed with leave to amend, plaintiffs filed a second amended complaint on August 14, 2017. Defendants again moved to dismiss, and in a decision issued December 5, 2017, the court denied the motion. Defendants have answered the complaint to deny all allegations, and intend to vigorously contest the lawsuit.

11. Financial Instruments Subject to Off-Balance Sheet Credit Risk

Off-Balance Sheet Credit Risk

Resale agreements: CS&Co enters into collateralized resale agreements principally with other broker-dealers, which could result in losses in the event the counterparty fails to purchase the securities held as collateral for the cash advanced and the fair value of the securities declines. To mitigate this risk, CS&Co requires that the counterparty deliver securities to a custodian, to be held as collateral, with a fair value at or in excess of the resale price. We also set standards for the credit quality of the counterparty, monitor the fair value of the underlying securities as compared to the related receivable, including accrued interest, and require additional collateral where deemed appropriate. The collateral provided under these resale agreements is utilized to meet obligations under broker-dealer client protection rules, which place limitations on our ability to access such segregated securities. For CS&Co to repledge or sell this collateral, it would be required to deposit cash and/or securities of an equal amount into its segregated reserve bank accounts in order to meet its segregated cash and investment requirement. CS&Co's resale agreements are not subject to master netting arrangements.

Securities lending: CS&Co loans brokerage client securities temporarily to other brokers and clearing houses in connection with its securities lending activities and receives cash as collateral for the securities loaned. Increases in security prices may cause the fair value of the securities loaned to exceed the amount of cash received as collateral. In the event the counterparty to these transactions does not return the loaned securities or provide additional cash collateral, we may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy our client obligations. CS&Co mitigates this risk by requiring credit approvals for counterparties, monitoring the fair value of securities loaned, and requiring additional cash as collateral when necessary. We also borrow securities from other broker-dealers to fulfill short sales by brokerage clients and deliver cash to the lender in exchange for the securities. The fair value of these borrowed securities was $99 million at December 31, 2018. All of our securities lending transactions are through a program with a clearing organization, which guarantees the return of cash to us and is subject to enforceable master netting arrangements with other broker-dealers; however, we do not net securities lending transactions. Therefore, the securities loaned and securities borrowed are presented gross in the consolidated statement of financial condition.

(Tabular Amounts in Millions, Except Option Price Amounts)

The following table presents information about our resale agreements and securities lending activity depicting the potential effect of rights of setoff between these recognized assets and recognized liabilities at December 31, 2018.

	Gross Assets/ Liabilities	Gross Amounts Offset in the Consolidated Statement of Financial Condition	Net Amounts Presented in the Consolidated Statement of Financial Condition	Gross Amounts Not Offset in the Consolidated Statement of Financial Condition		Net Amount
				Counterparty Offsetting	Collateral	
Assets:						
Resale agreements [1]	$ 7,195	$ —	$ 7,195	$ —	$ (7,195) [2]	$ —
Securities borrowed [3]	101	—	101	(98)	(3)	—
Total	$ 7,296	$ —	$ 7,296	$ (98)	$ (7,198)	$ —
Liabilities:						
Securities loaned [4,5]	$ 1,184	$ —	$ 1,184	$ (98)	$ (975)	$ 111
Total	$ 1,184	$ —	$ 1,184	$ (98)	$ (975)	$ 111

(1) Included in cash and investments segregated and on deposit for regulatory purposes in the consolidated statement of financial condition.
(2) Actual collateral was greater than or equal to 102% of the related assets. At December 31, 2018, the fair value of collateral received in connection with resale agreements that are available to be repledged or sold was $7.4 billion.
(3) Included in receivables from brokers, dealers, and clearing organizations in the consolidated statement of financial condition.
(4) Included in payables to brokers, dealers, and clearing organizations in the consolidated statement of financial condition. The cash collateral received from counterparties under securities lending transactions was equal to or greater than the market value of the securities loaned at December 31, 2018.
(5) Securities loaned are predominantly comprised of equity securities held in client brokerage accounts with overnight and continuous remaining contractual maturities.

Client trade settlement: CS&Co is obligated to settle transactions with brokers and other financial institutions even if our clients fail to meet their obligations to us. Clients are required to complete their transactions on settlement date, generally two business days after the trade date. If clients do not fulfill their contractual obligations, we may incur losses. We have established procedures to reduce this risk by requiring deposits from clients in excess of amounts prescribed by regulatory requirements for certain types of trades, and therefore the potential to make payments under these client transactions is remote. Accordingly, no liability has been recognized for these transactions.

Margin lending: Clients with margin loans have agreed to allow CS&Co to pledge collateralized securities in their brokerage accounts in accordance with federal regulations. The following table summarizes the fair value of client securities that were available, under such regulations, that could have been used as collateral, and the amounts that we had pledged as of December 31, 2018.

Fair value of client securities available to be pledged	$ 26,628
Fair value of client securities pledged for:	
Fulfillment of requirements with the Options Clearing Corporation [1]	2,315
Fulfillment of client short sales	1,292
Securities lending to other broker-dealers	974
Total collateral pledged	$ 4,581

Note: Excludes amounts available and pledged for securities lending from fully-paid client securities. The fair value of fully-paid client securities available and pledged was $97 million as of December 31, 2018.
(1) Client securities pledged to fulfill client margin requirements for open option contracts established with the Options Clearing Corporation.

(Tabular Amounts in Millions, Except Option Price Amounts)

12. Fair Values of Assets and Liabilities

For a description of the fair value hierarchy and the Company's fair value methodologies, including the use of independent third-party pricing services, see Note 2. The Company did not adjust prices received from the primary independent third-party pricing service at December 31, 2018.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the fair value hierarchy for assets measured at fair value on a recurring basis as of December 31, 2018. Liabilities recorded at fair value were not material, and therefore are not included in the following table:

	Level 1	Level 2	Level 3	Balance at Fair Value
Cash equivalents:				
Money market funds	$ 1,924	$ —	$ —	$ 1,924
Investments segregated and on deposit for regulatory purposes:				
Certificates of deposit	—	1,396	—	1,396
U.S. Government securities	—	3,275	—	3,275
Total investments segregated and on deposit for regulatory purposes	—	4,671	—	4,671
Securities owned:				
Equity and bond mutual funds	331	—	—	331
State and municipal debt obligations	—	39	—	39
Equity, U.S. Government and corporate debt, and other securities	3	30	—	33
Schwab Funds® money market funds	26	—	—	26
Total securities owned	360	69	—	429
Total	$ 2,284	$ 4,740	$ —	$ 7,024

Fair Value of Other Financial Instruments

The following tables present the fair value hierarchy for other financial instruments at December 31, 2018:

	Carrying Amount	Level 1	Level 2	Level 3	Balance at Fair Value
Assets					
Cash and cash equivalents	$ 745	$ —	$ 745	$ —	$ 745
Cash and investments segregated and on deposit for regulatory purposes	8,686	—	8,686	—	8,686
Receivables from brokers, dealers, and clearing organizations	547	—	547	—	547
Receivables from brokerage clients — net	22,234	—	22,234	—	22,234
Other assets	11	—	11	—	11
Total	$ 32,223	$ —	$ 32,223	$ —	$ 32,223
Liabilities					
Payables to brokers, dealers, and clearing organizations	$ 1,831	$ —	$ 1,831	$ —	$ 1,831
Payables to brokerage clients	32,736	—	32,736	—	32,736
Accrued expenses and other liabilities	1,173	—	1,173	—	1,173
Finance lease obligation	52	—	52	—	52
Subordinated borrowings due to The Charles Schwab Corporation	185	—	185	—	185
Total	$ 35,977	$ —	$ 35,977	$ —	$ 35,977

13. Related-Party Transactions

The Company engages in various related party transactions with CSC and other affiliates under common control. The accompanying consolidated statement of financial condition is not necessarily indicative of the conditions that would exist or the results of operations that would prevail if the Company were operated as an unaffiliated entity.

The Company provides administrative, technology, and other support services to affiliates. In exchange for providing these services, CS&Co charges affiliates service fees. Additionally, CS&Co offers a cash feature for certain client brokerage accounts that automatically sweeps uninvested cash balances in the brokerage accounts to deposit accounts at Charles Schwab Bank (CSB) and Charles Schwab Premier Bank (formerly known as Charles Schwab Signature Bank), bank subsidiaries of CSC. CSB and Charles Schwab Premier Bank pay interest to customers on these deposit accounts, and the accounts are FDIC-insured up to $250,000 per depositor, per bank. CSB and Charles Schwab Premier Bank pay CS&Co an annual per account flat fee for administrative services in support of the operation of the bank sweep program. Receivables from affiliates related to these services were $100 million at December 31, 2018 and are included in other assets on the consolidated statement of financial condition.

The Company collects fees from clients for services performed by affiliates and makes payments to affiliates for those services. The Company also collects cash payments on behalf of Charles Schwab Investment Management and holds a payable for unremitted cash. The Company also makes payments for services received from affiliates. Total payables to affiliates were $131 million at December 31, 2018 and are included in accrued expenses and other liabilities on the consolidated statement of financial condition.

CSC provides us with a $6.0 billion credit facility, which is scheduled to expire in December 2020. There were no amounts drawn under this facility at December 31, 2018. When drawn, the amount is included in accrued expenses and other liabilities on the consolidated statement of financial condition.

To manage our regulatory capital requirement, we maintain a $1.5 billion subordinated revolving credit facility with CSC. The facility is available for general corporate purposes and is scheduled to expire in March 2020. There was $185 million drawn under this facility at December 31, 2018.

14. Employee Incentive and Retirement Plans

Employees, officers, and directors of CS&Co participate in stock incentive plans sponsored by CSC.

CSC's share-based incentive plans provide for granting options and restricted stock units to employees, officers, and directors. In addition, CSC offers retirement and employee stock purchase plans to eligible employees.

CSC issues shares for stock options and restricted stock units from treasury stock. At December 31, 2018, CSC was authorized to grant up to 68 million common shares under its existing stock incentive plans. Additionally, at December 31, 2018, CSC had 36 million shares reserved for future issuance under its employee stock purchase plan.

As of December 31, 2018, CSC had $294 million of total unrecognized compensation cost related to outstanding stock options and restricted stock units, which is expected to be recognized through 2022 with a remaining weighted-average service period of 1.8 years for stock options, 2.4 years for restricted stock units, and 0.3 years for performance stock units.

Stock Option Plan

Options are granted for the purchase of shares of common stock at an exercise price not less than market value on the date of grant, and expire ten years from the date of grant. Options generally vest annually over a one- to four-year period from the date of grant.

CSC's stock option activity is summarized below:

	Number of Options (In millions)	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2018	30	$ 30.19	6.27	$ 373
Vested and expected to vest at December 31, 2018	30	$ 30.05	6.24	$ 373
Vested and exercisable at December 31, 2018	19	$ 23.70	4.86	$ 331

The aggregate intrinsic value in the table above represents the difference between CSC's closing stock price and the exercise price of each in-the-money option on the last trading day of the period presented.

Information on CSC's stock options granted and exercised for the year ended December 31, 2018 is presented below:

Weighted-average fair value of options granted per share	$ 14.16
Cash received from options exercised	125
Tax benefit realized on options exercised	35
Aggregate intrinsic value of options exercised	189

CSC's management uses an option pricing model to estimate the fair value of options granted. The model takes into account the contractual term of the stock option, expected volatility, dividend yield, and the risk-free interest rate. Expected volatility is based on the implied volatility of publicly-traded options on CSC's stock. Dividend yield is based on the average historical CSC dividend yield. The risk-free interest rate is based on the yield of a U.S. Treasury zero-coupon issue with a remaining term similar to the contractual term of the option. We use historical option exercise data, which includes employee termination data, to estimate the probability of future option exercises. The assumptions used to value the options granted during 2018 and their expected lives were as follows:

Weighted-average expected dividend yield	1.42%
Weighted-average expected volatility	33%
Weighted-average risk-free interest rate	3.0%
Expected life (in years)	4.0 - 5.2

Restricted Stock Units

Restricted stock units are awards that entitle the holder to receive shares of CSC's common stock following a vesting period. Restricted stock units are restricted from transfer or sale and generally vest annually over a one- to four-year period, while performance-based restricted stock units also require CSC achieve certain financial or other measures prior to vesting. The fair value of restricted stock units is based on the market price of CSC's stock on the date of grant. The grant date fair value is amortized to compensation expense on a straight-line basis over the requisite service period. The fair value of the restricted stock units that vested during 2018 was $166 million.

CSC's restricted stock units activity is summarized below:

	Number of Units (In millions)	Weighted-Average Grant Date Fair Value per Unit
Outstanding at December 31, 2018	7	$ 40.64

(Tabular Amounts in Millions, Except Option Price Amounts)

Retirement Plan

Employees of CS&Co can participate in CSC's qualified retirement plan, the SchwabPlan® Retirement Savings and Investment Plan. CSC may match certain employee contributions or make additional contributions to this plan at its discretion.

Financial Consultant Career Achievement Plan

CSC's Financial Consultant (FC) career achievement plan is a noncontributory, unfunded, nonqualified plan for eligible FCs. An FC is eligible for earned cash payments after retirement contingent upon meeting certain performance levels, tenure, age, and client transitioning requirements. Allocations to the plan are calculated annually based on performance levels achieved and eligible compensation and are subject to general creditors of the Company. Full vesting occurs when an FC reaches 60 years of age and has at least ten years of service with the Company.

The following table presents CSC's projected benefit obligation as of December 31, 2018:

Projected benefit obligation at end of year (1)	$	56

(1) This amount is recognized as a liability on CSC's consolidated balance sheets and also depicts the accumulated benefit obligation.

15. Income Taxes

On December 22, 2017, P.L. 115-97, known as the Tax Cuts and Jobs Act (the Tax Act), was signed into law. Among other things, the Tax Act lowered the federal corporate income tax rate from 35% to 21%, effective for tax years including or commencing January 1, 2018.

During 2018, we concluded our analysis and accounting for all remaining impacts of the Tax Act, including the state tax effect of adjustments made to federal temporary differences, resulting in no additional material impacts.

As of January 1, 2018, CS&Co adopted new revenue recognition guidance, which resulted in recording an asset for capitalized contract costs of $219 million and a related deferred tax liability of $52 million as described in Note 2. As of December 31, 2018, the deferred tax liability related to the capitalized contract costs was $60 million.

(Tabular Amounts in Millions, Except Option Price Amounts)

The temporary differences that created deferred tax assets and liabilities as of December 31, 2018 are detailed below:

Deferred tax assets:		
Employee compensation, severance and benefits	$	83
Facilities lease commitments		12
Deferred rent		10
Reserves and allowances		8
Net operating loss carryforwards		3
State and local taxes		1
Other		2
Total deferred tax assets		119
Valuation allowance		(1)
Deferred tax assets — net of valuation allowance		118
Deferred tax liabilities:		
Capitalized internal-use software development costs		(98)
Depreciation and amortization		(66)
Capitalized contract costs		(60)
Prepaid maintenance		(8)
Total deferred tax liabilities		(232)
Deferred tax asset/(liability) — net [1]	$	(114)

[1] Amounts are included in accrued expenses and other liabilities on the consolidated statement of financial condition at December 31, 2018.

Unrecognized tax benefits totaled $108 million as of December 31, 2018, $104 million of which if recognized, would affect the annual effective tax rate.

At December 31, 2018, we had accrued approximately $9 million for the payment of interest and penalties.

CSC's consolidated federal income tax returns for 2011 through 2017 remain subject to examination. The years open to examination by state and local governments vary by jurisdiction.

16. Regulatory Requirements

The Company is subject to Rule 15c3-1 under the Securities Exchange Act of 1934 (Uniform Net Capital Rule). We compute net capital under the alternative method permitted by the Uniform Net Capital Rule. This method requires the maintenance of minimum net capital, as defined, of the greater of 2% of aggregate debit balances arising from client transactions or a minimum dollar requirement, which is based on the type of business conducted by CS&Co. At December 31, 2018, 2% of aggregate debit balances was $436 million, which exceeded the minimum dollar requirement of $250,000. Under the alternative method, we may not repay subordinated borrowings, pay cash dividends, or make any unsecured advances or loans if such payment would result in a net capital amount of less than 5% of aggregate debit balances or less than 120% of its minimum dollar requirement. At December 31, 2018, CS&Co's net capital was $2.3 billion (11% of aggregate debit balances), which was $1.9 billion in excess of its minimum required net capital and $1.2 billion in excess of 5% of aggregate debit balances.

The Company is also subject to the Customer Protection Rule and other applicable regulations, which requires us to maintain cash or qualified securities in a segregated reserve account for the exclusive benefit of clients. The Customer Protection Rule requires broker-dealers to segregate client fully paid securities and cash balances not collateralizing margin positions and not swept to money market funds or bank deposit accounts. Amounts included in cash and investments segregated and on deposit for regulatory purposes represent actual balances on deposit, whereas cash and investments required to be segregated and on deposit for regulatory purposes at December 31, 2018 totaled $16.7 billion of which $17 million was for Proprietary Accounts of Broker-Dealers (PAB). We compute a separate reserve requirement for PAB and segregate a portion of cash to meet this requirement. As of January 3, 2019, the Company had deposited $3.7 billion of cash and qualified securities into its segregated reserve accounts.

17. Subsequent Events

The Company has evaluated the impact of events that have occurred subsequent to December 31, 2018, through the date the consolidated statement of financial condition was issued. There have been no material subsequent events that have occurred during such period that would require disclosure or would be required to be recognized.