



A Better Future for Surplus Effective Date: June 16, 2025

# Finance Policies

## Financial Risk Management & Hedging Policy

Version	Date	Author/Approver	Comments
1.0	June 16, 2025	Board of Directors	Initial Policy

### Purpose:

To clarify the policy of the Liquidity Services, Inc. and its subsidiaries (the “Company”) governing the use of financial derivatives to manage or hedge commercial risks.

### Scope:

This policy (this “Policy”) applies to all employees of the Company.

### Policy Statement:

#### 1. Background

The Company may use financial derivatives to manage or hedge commercial risks in accordance with this Policy. Speculative use of financial derivatives is prohibited. If a contract meets the Generally Accepted Accounting Principles (GAAP) definition of a financial derivative then it must qualify for hedge accounting treatment under Financial Accounting Standards Board Accounting Standards Codification Topic 815, Derivatives and Hedging. If a contract does not meet the GAAP definition of a financial derivative, it is still subject to the Policy requirements below.

#### 2. Permitted Objectives

The Company is exposed to a number of business risks that can be appropriately mitigated through the application of various financial instruments. The Company may enter into derivative financial instruments to achieve the following objectives:

- Stabilize the balance sheet: reduce volatility in the USD-equivalent value of (a) foreign subsidiaries’ net assets (e.g., excess cash) that flow through equity (CTA) and/or (b) recognized foreign-currency monetary items (e.g., receivables, payables, debt, etc.) whose re-measurement gains or losses would otherwise hit the P&L each period; or
- Stabilize future cash flows: reduce the volatility of the USD-equivalent value of forecasted foreign currency cash flows (e.g., sales receipts, operating expense payments, interest payments, etc.).

#### 3. Permitted Hedging Instruments

The financial instruments permitted to limit commercial risks include FX forwards, FX swaps, FX options, cross-currency swaps, interest rate swaps, forward-starting swaps, treasury-lock agreements, and interest rate caps, floors or collars.

#### 4. Regulatory Considerations

Under regulations adopted by the Commodities Futures Trading Commission (“CFTC”) under the Dodd- Frank Act, certain over-the-counter derivative trades that are not securities-based (known as “swaps”) are subject to mandatory clearing and exchange trading requirements and will need to be cleared and traded on an exchange or swap execution facility unless an exception to the clearing and exchange trading requirement is available. Parties to a cleared swap will have to post liquid collateral (margin) on the swap, both upfront and on a mark-to-market basis (generally referred to as initial and variation margin). The Company would not have the ability to negotiate the amount of initial or variation margin required for a cleared swap. As a result, the Company will seek to utilize an exception to the clearing and exchange trading requirement where available. One exception to the clearing requirement is the “commercial end-user exception.” This Policy is intended to allow the Company to meet the requirements of the commercial end-user exception.

The requirements to qualify for the commercial end-user exception are that a party: is a non-financial entity; is using the swap to hedge or mitigate commercial risk; notifies the CFTC how it generally meets its financial obligations associated with entering into non-cleared swaps; and if the entity is an SEC filer (or subsidiary of an SEC filer), obtains approval of the party’s Board of Directors (“Board”) or an appropriate committee of the Board to rely on the commercial end-user exception.

#### 5. Roles & Responsibilities

<b>Role</b>	<b>Key Responsibilities</b>
Audit Committee	The Audit Committee shall periodically review and discuss with management the Company’s overall hedging strategy and the use of swaps and other derivative instruments by the Company or any of its subsidiaries for hedging risks pursuant to this Policy, other hedging policies, or otherwise. The Committee will have the authority to review and approve, at least annually, decisions by the Company (on its behalf or on behalf of any of its subsidiaries) to enter into swaps, including those that may not be subject to clearing and exchange trading and execution requirements in reliance on the “end-user exception” under the Commodity Exchange Act, or other rules and regulations promulgated from time to time.
CEO	Approves proposals for hedging strategy implementation (e.g., to initiate a net investment hedge on a foreign subsidiary).
CFO	Owns Financial Risk Management function and prepares proposals targeting material risks. Ensures trades that are aligned with approved strategies are implemented.
VP, Controller	Executes trades that are aligned with approved strategies; maintains relationships with counterparties; periodically evaluates exposures to see if new or amended hedging strategies are needed.
Sr. Director, Controller	Supports VP, Controller in evaluating FX exposures; facilitates cash movements and recording of journal entries associated with hedging activity.
Sr. Director, Tax	Evaluates proposed hedging strategies for tax impacts; provides input on how tax can impact the trading parameters and/or documentation.
FP&A / Business Unit Leadership	For cash flow hedges, provides forecasted cash-flows exposures with reasonable accuracy; promptly updates the VP, Controller and Technical Accounting Team when forecasts or underlying business conditions change.
Technical Accounting Team	Ensures ASC 815 compliance; prepares contemporaneous hedge documentation; performs effectiveness testing; maintains supporting files.

## 6. Authority Matrix

	VP, Controller	CFO	CEO	Audit Committee
<b>New hedging strategies:</b>				
≥\$10M Notional	Yes	Yes	Yes	Yes
<\$10M Notional	Yes	Yes	Yes	No
<b>Continuation of hedging strategies:</b>				
≥\$10M Notional	At least annually			
<\$10M Notional	At least annually			No
<b>Placing trades consistent approved strategies:</b>				
≥\$10M Notional	Yes	Yes	No	No
<\$10M Notional	Yes	No	No	No

## 7. Counterparty Risk Management

To mitigate against the non-performance of financial counterparties, the Company will use the following guidelines:

Criterion	Requirement
Minimum long-term credit rating	Financial institutions (banks, dealers) must be rated at least at least A (S&P), A2 (Moody's), or A (Fitch).
Single-counterparty notional cap	\$25 million aggregate open notional per counterparty including all affiliates.
Downgrade triggers	If a counterparty's rating falls below investment-grade (to BB+ / Ba1 / BB+ or lower), Treasury halts new trades and the CFO reviews the exposure within 10 business days. If the rating falls to BB- / Ba3 / BB- or lower, the CFO prepares an unwind or novation plan** and presents it to the Audit & Finance Committee.

\*\**Novation = transfer of open trades to a stronger counterparty with identical economics.*

## 8. Accounting & Documentation Requirements (ASC 815)

The Company records all derivative contracts in accordance with GAAP (ASC 815 and, for foreign-currency items, ASC 830). The VP, Controller delivers each new trade ticket to the Sr. Director, Controller and the Technical Accounting Team on the trade date; at every quarter-end the Corporate Accounting Team marks each position to market using the verifiable pricing sources, posts the resulting fair-value adjustments, and applies hedge-accounting journals (OCI deferral, basis adjustments, amortization of excluded components) whenever contemporaneous documentation and effectiveness tests support qualification. Derivative balances, OCI movements, and any ineffectiveness are then incorporated into the external financial-statement footnote package.

On the same day a hedge is executed, the Technical Accounting Team, with assistance of the Sr. Director, Tax, prepares and archives a designation memo that states the risk-management objective, identifies the hedged item and hedging instrument, specifies the risk being hedged, and describes the method used to assess effectiveness. Thereafter, the Technical Accounting Team continues to monitor for changes that would impact the effectiveness of the hedge.

The Corporate Accounting Team maintains the original confirmations, ISDA/CSA agreements, counterparty-exposure log, valuation support, and journal entries; the Technical Accounting Team keeps the full hedge documentation pack and effectiveness workpapers.

In line with CFTC requirements, each set of records is stored electronically in a retrievable format for at least five years after the related derivative is terminated and must be producible within five business days if requested by auditors or regulators.

### Interpretation:

Any questions concerning the interpretation of this Policy or its application should be referred to the Chief Financial Officer (the "CFO") or the CFO's designee.