

# Product Risk Governance Policy

**At LPL Financial, it is our mission to support our advisors and their clients to meet their investment goals. We are dedicated to acting as responsible stewards of the products and services available on our platform.**

## How we manage product risk governance

Product risk governance is overseen by our Board of Directors' Nominating Governance Committee and CEO, but day-to-day management is conducted by teams reporting to our Head of Investment Management Solutions and Chief Risk Officer:

### Investment Product Management

- Conduct initial and ongoing due diligence on all investment products and/or sponsors offered on LPL platform, focusing on risk and performance metrics

### LPL Research

- Create focused list of mutual funds, ETFs, and Separately Managed Accounts for models managed by LPL Research

### Product Risk Management

- Oversees the introduction of new products and the monitoring of existing products on LPL's platform
- Takes a risk-based approach to oversight, performing differing levels of due diligence based on product type and associated risk

### Product Review Committees

- Cross-functional committees review and approve new products prior to making them available for purchase at LPL



### LPL's Role in Product Risk Governance

As the largest independent broker-dealer in the country,\* our role in the investment marketplace is to ensure that our product offerings are meeting the needs of our advisors and their clients. While we do not issue our own investment products, we make sure the products on our platform undergo a robust due diligence process that seeks to detect, evaluate, and mitigate excessive product risk. We control the entry of products on our platform and provide ongoing monitoring of approved products to ensure continual risk management.

## PRODUCT RISK GOVERNANCE POLICY

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### Product risk governance process

#### Initial Due Diligence

When new products are considered for the LPL platform, we perform robust qualitative and quantitative research to obtain an understanding of the products' strategy, costs, historical performance profiles, and risks.

#### Engagement

Product teams typically meet with senior management, portfolio managers, and others to assess the investment process and risks, and answer any questions or concerns that we may have uncovered during our initial diligence.

#### Assessment

After completing our initial due diligence and, if applicable, manager meetings, new products are presented to the appropriate product review committee for discussion and approval. Majority

consent from all voting members and principal of the product review committee is required before a product is made available for purchase at LPL.

#### Monitoring

Following approval, we perform ongoing monitoring of the products on our platforms, assessing performance, product-specific updates, alignment to stated investment processes, and risk controls.

#### LPL Solutions Consideration

To further guide our advisors, our LPL Research department provides focused mutual fund, ETF, and Separately Managed Account lists that include investment products they believe are strong performers within their categories and are consistent with investment objectives of managing downside risk and capturing attractive upside potential.

### Example product review processes

#### Traded Products

When evaluating exchange-traded products (ETPs) for availability to purchase at LPL, we review costs, tracking errors, asset levels, premium/discount and bid/ask spreads. A completed due diligence questionnaire is also reviewed to ensure that the product meets and exceeds our minimal qualifications before it is presented to the product review committee for discussion and approval.

#### Alternative Investments

In addition to the standard due diligence steps described, we perform additional economic and regulatory review for alternative investments. For example, we assess the current economic environment to determine if the

product and/or investment firm could face headwinds which could result in the removal of the product. We monitor the regulatory environment to ensure that advisors are trained and educated on any changes to regulations that would impact usage in client portfolios, as well as any changes to required investor disclosures or education.

#### Separately Managed Accounts and Models

In addition to the above process, all Separately Managed Accounts on the LPL platforms are subject to third-party industry data analytics, supplemented with annual diligence questionnaires, which cover topics such as legal, compliance, and regulatory issues, investment professionals, and asset levels.

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## Acting in the best interest of our clients

In compliance with FINRA Rule 3110, communications with the public are monitored and reviewed by a home office supervisor to ensure that the content is fair and balanced, and the public is not misled by what is presented. The review is conducted in order to detect and prevent potential violations of regulatory rules and LPL Financial policies and procedures.

For all product offerings, LPL Financial has an affirmative duty of care, loyalty, and good faith to act in the best interests of its clients and disclose all material conflicts of interest. Our investment product team actively reviews the investment approach and performance of available (existing) investments, and notes risks of products for committee review. Product complaints are surveilled by legal and compliance teams to detect concerning patterns.

When appropriate, improvements are implemented to address these concerns, which could result in product platform changes, enhanced advisor training, or other sales practice improvement measures.

Training is required for financial professionals who seek to purchase complex investment products on behalf of their clients. The firm also mandates annual compliance training for

personnel, which are also updated annually to cover the most current topics of regulator focus, including Regulation Best Interest. LPL Financial also discloses and/or describes the risks associated with products offered for sale in the Brokerage Compensation and Conflicts Disclosure (“BCCD”), the LPL Form ADV Part 2A “Brochure” for Advisory Services, and the Third-Party Compensation and Related Conflicts of Interest, which are all publicly available on [lpl.com](http://lpl.com).

All identified customer complaints must be immediately escalated to the appropriate OSJ branch manager or home office supervisor and forwarded to our legal department to determine the appropriate action to be taken. Prompt escalation of customer complaints is critical to LPL’s ability to meet its complaint reporting obligations under MSRB and NFA Rules and FINRA 4530, and for advisors to meet the relevant regulatory requirement related to maintaining an accurate Form U4 and Form U5. A complaint received by an advisor or their delegate is considered receipt by the firm.

More information outlining our governance around marketing and product offering is detailed in our Written Supervisory Procedures.

\*As reported by *Financial Planning* magazine, June 1996-2024, based on total revenue.

Investing involves risks, including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments.

Throughout this communication, the terms “financial advisors” and “advisors” include registered representatives and/or investment advisor representatives affiliated with LPL Financial LLC, an SEC-registered broker-dealer and investment adviser.

**Securities and advisory services offered through LPL Financial (LPL), a registered investment advisor and broker-dealer (member FINRA/SIPC).** Insurance products are offered through LPL or its licensed affiliates. To the extent you are receiving investment advice from a separately registered independent investment advisor that is not an LPL Financial affiliate, please note LPL Financial makes no representation with respect to such entity.

Not Insured by FDIC/NCUA or Any Other Government Agency	Not Bank/Credit Union Guaranteed	Not Bank/Credit Union Deposits or Obligations	May Lose Value
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