

FEDERATION OF EXCHANGE ACCOMMODATORS (FEA)

FIDELTY PROGRAM FREQUENTLY ASKED QUESTIONS

Q: What does the FEA Fidelity policy cover?

A: The FEA Fidelity policy (also known as a Crime Policy) is an insurance contract that covers losses resulting directly from dishonest acts, such as defalcation, embezzlement, conversion, theft and fraud, by employees or owners of the QI.

Q: What does the FEA Fidelity policy not cover?

A: Like all insurance policies, the FEA Fidelity policy contains certain exclusions to coverage. Some of the more notable exclusions include:

- ✍ Indirect or consequential loss, such as unrealized investment income or realized tax liabilities;
- ✍ A failed exchange if, through honest but negligent financial management, funds are not available when an exchange transaction is supposed to close;
- ✍ Losses resulting from failure of the Qualified Intermediary (QI) to comply with certain basic internal control requirements;

Q: Who can make a claim under the FEA Fidelity policy?

A: Most fidelity policies only allow an authorized representative of the QI to make a claim for recovery, such as an officer, owner or bankruptcy trustee. The FEA Fidelity policy, however, also allows clients of the QI to make claims for recovery directly against the policy.

Q: How does the policy limit under the FEA Fidelity Policy apply to claims?

A: The policy limit applies on a “per occurrence” basis, meaning each separate loss event or series of related loss events has the full benefit of the policy limit. Losses are usually considered related, i.e. a single occurrence, if they arise out of the same set of circumstances or involve the same employee or group of employees. The policy limit does not apply per customer, per transaction or per account.

Q: How does the FEA Fidelity Policy differ from a standard Fidelity policy?

A: The FEA Fidelity policy has been customized to address the unique needs of the 1031 business, including coverage for losses caused by dishonest acts of owners and affirmative coverage for loss of client money while held in a 1031 transaction. Also, the policy is designed to comply with all state regulations and, because of the joint purchasing power of the FEA; rates are more competitive than standard market rates.

Q: How do I apply for coverage under the FEA Fidelity program?

A: Information and applications are available on the “Membership Benefits” page of the FEA website, or by contacting the program manager: Rebecca Feldman, Lockton Insurance Brokers, Two Embarcadero Center, 17th Floor, San Francisco, CA 94111, Tel: (415) 568-4016, Fax: (415) 992-4016, Email: rfeldman@lockton.com.