

Security of Funds in an Exchange

Recent developments underscore the importance of carefully choosing a Qualified Intermediary (QI). Many of you may be aware that the QI industry has recently experienced several situations where a QI has not been able to produce exchange proceeds in a timely manner for its clients to purchase replacement property.

The problem has ranged from QI liquidity issues to out-right fraud and loss of exchange proceeds. The QI's involved in have shared several characteristics.

1. The QI commingled their clients' exchange funds;
2. The QI had full control over their clients' exchange funds;
3. The QI invested clients' exchange funds in illiquid, high risk investments; and
4. The QI had not been regulated in any way.

Compass Exchange Advisors LLC is owned and structures its exchanges in such a way to mitigate these critical issues. When choosing a QI you should be sure that:

1. The QI keeps all clients exchange proceeds in segregated client accounts with the client listed as beneficiary;
2. Each segregated account should require dual signatures for any funds to be released;
3. Funds should be invested in liquid Money Market Funds or held on the books of a regulated financial institution as a demand deposit;
4. The QI should be a regulated financial institution or a subsidiary thereof.

Compass has always implemented the first three protective measures for our clients' funds. On January 1st 2007, Compass Exchange Advisors became a wholly owned subsidiary of Rockland Trust Company (RTC). RTC is a Massachusetts chartered bank that has been in existence since 1907. RTC is 100% owned by Independent Bank Corp (NASDAQ: INDB), the largest publicly traded bank headquartered in Massachusetts.

One of the principal benefits of being a part of a regulated financial institution is the presence of internal controls to insure the safe handling of exchange funds. As a subsidiary of a publicly traded financial institution, Compass is subject to rigorous internal audit, RTC's independent auditors and federal and state regulators.

Please contact us if you have any questions regarding Compass Exchange Advisors, Rockland Trust Company or Section 1031 exchanges.