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# GET TO KNOW YOUR CUSTODIAN

*Understanding the limited role of a custodian and the responsibilities of the accountholder*

Self-directed IRAs offer access to a wide range of investment options including private equity, private debt, structured settlements, real estate, crowdfunding, public investments, and other non-exchange traded assets.

A self-directed IRA lets you invest on a tax-advantaged basis, keeping investment gains and income tax-deferred (or even tax-exempt).

More options mean more opportunity to diversify your portfolio outside of Wall Street—something you won't typically find with most banks and brokerage firms.

It's critical to have a custodian with in-depth knowledge in alternative investments to guide you through the rules and regulations to avoid potential pitfalls.

## UNDERSTANDING THE ROLE OF A CUSTODIAN

### BACKGROUND

Federal law requires that all IRA accounts be held by a custodian or trustee, which may be a bank, trust company or other entity which the IRS has approved to act in this capacity. Federal rules also make many types of investment permissible in an IRA, unless the investment is a prohibited transaction. Some examples of transactions prohibited in IRA accounts include life insurance policies and collectibles (art, antiques, rugs, gemstones, stamps, alcoholic beverages as well as certain metals and coins).

### WHAT MAKES SELF-DIRECTED IRAS DIFFERENT

Aside from the assets which are disallowed by law, it is up to each custodian to determine which types of assets it will hold in custody in an IRA account on behalf of an accountholder. By way of comparison, most banks and brokerage firms only allow an investor to hold publicly-traded mutual funds, stocks and other public securities in IRAs; however, custodians of self-directed IRAs typically permit you to invest in private, non-exchange traded investments, such as private equity or real estate. But, keep in mind, these assets usually carry higher risks and may require more hands-on involvement by the IRA accountholder. For this reason, it's important for investors to understand the limited role of an IRA custodian.

## A CUSTODIAN'S LIMITED ROLE

As an initial matter, a self-directed IRA custodian has a limited role as it relates to evaluating any investment. A custodian will only determine whether the investment is administratively feasible –simply stated, whether the investment fits within the custodian's operating systems and procedures and whether the custodian can fulfill its government reporting obligations (i.e., to report the IRA's fair market value or good-faith estimate of fair market value). For its own internal purposes, a custodian

may choose to – **but is not required to** – investigate the validity of an investment, the background of any investment promoter or the accuracy of any financial information provided by the investment promoter. Once a custodian determines it will custody an investment, a custodian’s obligations are limited to:

- Accepting, documenting, and recording contributions, transfers and rollovers from other IRAs/retirement plans
- Implementing technology and procedures to protect the privacy of the accountholder and account data
- Executing accountholders’ investment instructions as directed by sending funds from the IRA to the client selected investments
- Gathering, executing, and holding documents such as subscription agreements, operating agreements, offering memorandum, promissory notes, certificates, and other evidences of ownership of investments by the IRA
- Receiving and recording income from the assets held in the IRA
- Executing accountholders’ instructions to sell, withdraw from or liquidate investments held in the IRA
- Coordinating with investment sponsors the purchase and sale/liquidation of investments as directed by accountholder
- Facilitating, as directed by the accountholder, distributions from the IRA to the accountholder or transfers to other IRAs or retirement plans
- Performing tax reporting of IRS Forms 1099-R and 5498 as required by the IRS
- Providing IRA statements to the accountholder which includes transactions and cash and assets held in the account
- Complying with all applicable state and/or federal regulations

A custodian must make sure that the investments held within the account are properly registered in the name of the custodian. For STRATA customers, the naming convention is: STRATA Trust Company, Custodian FBO (Accountholder’s Name). The asset registration should reflect the custodian’s federal tax identification number (TIN) rather than the accountholder’s social security number. For STRATA customers, the TIN is 26-2637994. In addition, the custodian will report the income and gains that flow through the account and ensure that any expenses related to the investment are paid from the account. This is all part of making certain that the investments are properly administered while held in the account.

## WHAT A CUSTODIAN DOES NOT DO

Now that you understand what a custodian is responsible for, it is important to know what a custodian does not do. Custodians do not:

- Act as an investment advisor, tax advisor or legal advisor
- Provide investment, tax or legal advice
- Recommend or endorse investments
- Recommend or endorse investment advisors
- Determine the fair market value of account investments
- Perform due diligence for the account owner on any investment or investment sponsor
- Determine the merits or suitability of any investment for the IRA or the accountholder
- Determine whether a transaction would be deemed a Prohibited Transaction (i.e., transactions that are prohibited by the IRS). Refer to IRS Publication 590 or Code section 4975 for more information).





## SELF-DIRECTED IRA ACCOUNTHOLDER RESPONSIBILITIES

When it comes to a self-directed IRA, it is exactly as the name implies: “self-directed” – the accountholder has the sole responsibility for doing the due diligence and vetting of any investment before directing their custodian to invest. The accountholder bears the full risk if the investment fails or does not perform in a manner consistent with the accountholder’s expectations.

For this reason, every accountholder should:

- Direct their own investment(s);
- Complete their own thorough due diligence of any investment and the investment promoter(s);
- Understand the risks related to their investment(s);
- Seek help from legal, tax and financial advisors since important financial and tax decisions are involved;
- Understand the Prohibited Transaction rules and how to avoid them;
- Monitor the account carefully, including the performance of all investments made within the account on an ongoing basis;
- Be aware that certain investments in operating companies and debt-financed real estate may generate Unrelated Business Taxable Income (UBTI) or Unrelated Debt-Financed Income (UDFI), and the accountholder should follow their custodian’s guidelines for any tax that may be owed and for the preparation of Form 990-T;
- Ensure that valuations for all assets are provided to STRATA on at least an annual basis;
- Understand that an annual account fee will be charged by STRATA for providing administrative and custody services; and
- Notify the custodian of any unusual or unexplained investment activity or if your account experiences any delays in receiving payments or information promised by the investment sponsor.

## COMPANY FACTS

- Founded in 2008
- Subsidiary of Horizon Bank Texas, SSB, headquartered in Austin, TX
- IRA Custodian regulated by the Texas Department of Banking - Texas Trust Charter
- Independent annual audits conducted to ensure IRA compliance and data security
- 350 years of collective experience, 50+ employees with 75% of roles customer-facing
- Specializes in the custody of alternative investments and non-exchange traded investments
- Serving both individual investors and the financial services industry
  - » Financial advisors and RIAs
  - » Investment banks
  - » Family offices
  - » Legal and tax professionals
  - » Brokers/Dealers
  - » Investment product sponsors
  - » Investment platforms
  - » Real Estate professionals
- Nationwide service with offices in Waco and Austin, Texas
- Retirement Industry Trust Association (RITA), business and board of directors member

## SELF-DIRECTED RETIREMENT ACCOUNTS OFFERED BY STRATA

### FOR INDIVIDUALS

- Traditional IRAs
- Roth IRAs
- Rollovers from former employer plans
- Beneficiary IRAs

### FOR SMALL BUSINESSES

- SEP IRAs
- SIMPLE IRAs

*Institutional services are available.*

## INVESTMENT OPTIONS

- Real estate
- Private equity
- Private debt
- Crowdfunding
- Structured settlements
- Futures
- Public investments

## HOW IT WORKS

See how easy it is to get started:



### STEP 1

Open your IRA (online or with our paper application)



### STEP 2

Fund your account (by transfer, rollover or contribution)



### STEP 3

Direct your investments

## WHAT SETS STRATA APART

- Investment flexibility beyond what most banks, brokerage firms and other financial institutions allow
- Solid expertise in the custody of alternative investments
- Quick to respond and easily accessible
- Less red tape than most competitors
- **SERVICENOW** - Customer-focused technology that lets you complete, sign and electronically submit common IRA forms
- Unmatched personalized service and dedication

## OUR COMMITMENT TO SERVICE

- Live Customer Service Team member will answer your call during business hours
- Reliable and efficient processing of paperwork the first time
- Quick turnaround means faster processing of investment transactions and service requests
- Email notifications for account service requests
- Accurate tax reporting and quarterly statements
- Online account access 24/7 to view account activity or download account statements and notifications

## EXPERIENCE THE VALUE

STRATA Trust Company offers significant value compared to other custodians. See how we compare.

SERVICE ATTRIBUTES	STRATA	OUR COMPETITORS
Calls answered by a live representative	Yes, our goal is an average hold time of < 1 minute	Most do not
E-signature for online account opening	Yes	Most do not
Required minimum cash balance	\$0	Most require a \$300-500 cash balance
Required hold time (for use of funds)	No	Most require a 3-5 day hold
Transfer requests accepted by fax or email	Yes	Most require the investor to physically print, sign and send in
Turnaround times for investment processing	Within 2 business days, 95% processed within 24 hours	Most take 3-5 days to process
Email notifications from opening an account, requesting a transfer, depositing funds, investment processing and other service requests	Yes	May not offer
Ability to trade public securities through a brokerage account.	Yes	Most do not

# THE DETAILS MATTER

For more than a decade, STRATA Trust Company has helped thousands of investors and investment professionals hold self-directed retirement accounts in a wide range of alternative investments. We've built our reputation by delivering streamlined and straightforward custody, serviced by a team that is always available to help and well-versed in regulatory requirements.

## THE CLEAR DIFFERENCE



### STABILITY

Over 350 years of collective experience, 50+ employees, and more than a decade operating with direct oversight by the Texas Department of Banking



### COMMUNICATION

Prompt and accurate communication on transaction status, statement updates and investment requests.



### SPEED

Streamlined processes and digital documentation and signing to facilitate speedy transactions and transfer of assets.



### TECHNOLOGY

Secure and easy-to-use technology for straightforward account management, documents, tax statements and notifications.



**STRATA**  
TRUST COMPANY

*Carve your own path to retirement.™*

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StrataTrust.com

STRATA Trust Company ("STRATA") performs the duties of a directed (passive) custodian, and as such does not provide due diligence to third parties regarding prospective investments, platforms, sponsors, dealers or service providers. As a custodian, STRATA does not sponsor, endorse or sell any investment and is not affiliated with any investment sponsor, issuer or dealer. STRATA does not provide investment, legal or tax advice. Individuals should consult with their investment, legal or tax professionals for such services.

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