



Get to Know Your **Custodian**

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



Understanding self-directed custody

Background

Self-directed retirement accounts must be held or administered by a qualified financial institution. Depending on the account type, this may include a bank, trust company or other qualified entity.

Federal rules allow retirement accounts to hold a broad range of investments, while restricting certain assets and transactions. Understanding these rules—and the responsibilities of each party—is an important part of self-directed investing.

What makes a self-directed retirement account different

Traditional financial institutions typically limit retirement accounts to publicly traded investments. Self-directed retirement accounts provide greater investment flexibility, including access to traditional and a broader range of alternative assets.

With greater flexibility comes greater responsibility. *You choose and evaluate your investments and investment sponsors and monitor your investments, while your custodian administers the account and carries out your directions.*

A custodian's limited role

As an initial matter, a 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 account'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 an investment is accepted for custody, the custodian's responsibilities include:

- ✓ Accepting and recording contributions, transfers and rollovers
- ✓ Protecting the privacy of accountholders and account data
- ✓ Executing investment instructions as directed by the accountholder
- ✓ Gathering, executing and holding investment and ownership documents
- ✓ Receiving and recording investment income
- ✓ Processing sales, liquidations and withdrawals as directed
- ✓ Coordinating purchases and sales with

investment sponsors

- ✓ Processing distributions and transfers to other accounts or retirement plans
- ✓ Performing required tax reporting, including IRS Forms 1099-R and 5498
- ✓ Providing account statements showing transactions, cash and assets
- ✓ Complying with applicable state and federal regulations

How the account holds investments

Part of the custodian's role is ensuring investments are held and administered in accordance with the account's ownership. Within a self-directed retirement account, the account owns the investment—not the individual accountholder. Because of this, assets must be properly registered in the name of the custodian for the benefit of the accountholder.

For STRATA Trust Company ("STRATA") accountholders, assets are generally registered as:

- **STRATA Trust Company, Custodian FBO**
- **(Accountholder's Name)**

Asset registration should reflect STRATA's federal tax identification number (TIN), 26-2637994, rather than the accountholder's Social Security number.

Income and gains from the investment must flow back to the account, and investment-related expenses must be paid from the

account. These requirements help ensure the investment is properly administered while held within the self-directed retirement 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 account or the accountholder
- ✗ Determine whether a transaction would be deemed a prohibited transaction (i.e., a transaction prohibited by the IRS). Refer to IRS Publication 590 or Code Section 4975 for more information.

! ADMINISTRATIVE REVIEW IS NOT INVESTMENT APPROVAL

A custodian's acceptance of an investment for custody does not mean the investment has been reviewed, recommended or endorsed.

Accountholder responsibilities

When it comes to a self-directed account, 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 at least annually
- Understand that an annual account fee will be charged by STRATA for providing administrative and custody services
- 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

Prohibited transaction overview

Retirement accounts receive special tax treatment and are subject to rules about how account assets may be used and who may benefit from them. Certain transactions between the account and the accountholder or other disqualified persons are prohibited and may result in significant tax consequences. Common examples may include:

- ✖ Personally using property owned by your retirement account
- ✖ Buying from or selling an asset to a disqualified person
- ✖ Using retirement account assets for the benefit of a disqualified person
- ✖ Personally receiving compensation for managing or providing services to an investment held by the account

! PROHIBITED TRANSACTION SELF-CHECK

Before entering into a transaction, consider whether you, or another disqualified person, could directly or indirectly benefit from it.

Self-directed means *you're in control*

You make the investment decisions, your custodian provides the administrative framework to carry them out.



You decide

Choose and evaluate the investment and investment sponsor + monitor your investment over time.



You direct

Tell your custodian when and how to invest.



STRATA administers

As the custodian, STRATA carries out your directions and handles the account administration, recordkeeping, and reporting.

Why due diligence matters

Self-directed investing gives you greater control over your investment choices, but it also means you are responsible for evaluating the investment and investment sponsor. Your custodian's role is administrative and does not include investigating, recommending or endorsing an investment on your behalf.

Taking time to research an opportunity, understand its terms and recognize potential warning signs can help you make informed investment decisions.

Promises that sound too good to be true

Be cautious of promises of unusually high or consistent returns with little or no risk.

Pressure to act quickly

Beware of urgency, limited-time opportunities or pressure to invest before you've had time to review the investment and supporting documentation.

Investments that are difficult to verify

Research the investment, investment sponsor and individuals involved. Be cautious when information is incomplete, difficult to independently verify or relies heavily on affiliation with a recognizable organization.

Relationship-based investment pitches

Fraudsters may build trust through social media, messaging apps, dating platforms or personal relationships before introducing an investment opportunity.

Claims of custodian approval

A custodian's willingness to hold an investment does not mean the investment has been vetted, approved or endorsed.

Before you invest checklist

Before providing your custodian with investment instructions, ask yourself:

- ☐ **Have I researched the investment and sponsor?**
Review the parties involved, investment structure, terms, fees, risks and supporting documentation.
- ☐ **Do I understand the investment?**
Know what you're purchasing, how returns may be generated and how you may eventually exit the investment.
- ☐ **Do I understand the risks?**
Consider liquidity, loss of principal and other risks associated with the investment.
- ☐ **Is it permitted?**
Understand applicable retirement account and prohibited transaction rules.
- ☐ **Can my custodian hold it?**
Confirm the investment meets your custodian's administrative requirements.
- ☐ **Is my account ready?**
Make sure sufficient funds are available for the investment and related expenses.
- ☐ **How will the investment be maintained?**
Understand ongoing requirements for income, expenses, valuations and documentation.

A trusted name

Since 2008, STRATA has helped thousands of investors diversify their retirement portfolios across traditional and alternative assets through tax-advantaged retirement accounts.

STRATA specializes in the custody and administration of self-directed retirement accounts, providing the expertise and support investors need to pursue a broader range of investment opportunities while remaining in control of their investment decisions. As a regulated trust company, our reputation is built on years of consistent service, specialized expertise and the trust and confidence of our accountholders.

Resources for your self-directed journey



Self-Directed Knowledge Center

Find answers to common questions about your account, investments and self-direction.

www.StrataTrust.com/FAQ >



Client Support

Access FAQs, forms, deposit information and STRATA contact information.

www.StrataTrust.com/ClientSupport >



Insights Blog

Explore trends, regulations and insights related to alternative investing and self-direction.

www.StrataTrust.com/InsightsBlog >



Rules & Regulations

Review key IRS rules, contribution limits and prohibited transaction information.

www.StrataTrust.com/RulesRegulations >



Protect Yourself

Access resources for evaluating investments, sponsors and potential fraud.

www.StrataTrust.com/ProtectYourself >



Disclosures

Review important disclosures and policies related to your STRATA account.

www.StrataTrust.com/Forms >

Seamless custody, *endless possibilities*

Alternative assets—expert custody, defined by
experience, distinguished by service.



STRATA
TRUST COMPANY

Carve your own path to retirement.™

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