

One of the most confusing aspects of the self-directed IRA industry is understanding the differences between the types of IRA providers that are available - **Custodians** and **Administrators**. Federal law requires that all IRAs have an appointed custodian. **Custodians**, like STRATA Trust Company, must meet IRS requirements and are regulated by state and/or federal banking regulators. On the flip side, **Administrators** are middle men that must contract with a custodian to provide their services. Below are the key differences between the two types of IRA providers:

	Custodian	Administrator	What you need to know
Approved by the IRS?	✔		Banks and trust companies have automatic approval as an IRA custodian because they are subject to oversight by state or federal bank regulators. Administrators must contract with an IRA custodian to provide their services which can pose delays and unnecessary risks to customers.
Allowed to custody assets?	✔		Many administrators actually hold title to customers' IRA assets in their name, and this simply is not permitted. It can pose additional risks to customers. Assets should always be maintained in the name of the IRA custodian.
Allowed to hold custodial (uninvested) cash?	✔		Many administrators actually hold customers' uninvested cash in pooled bank accounts in their name. Again, this should not be allowed and poses potential risks to IRA owners. Customers' uninvested cash should always be maintained in the name of the IRA custodian.
Subject to federal or state bank regulator oversight?	✔		Quite a few administrators claim to be regulated, but the fact is they do not have onsite safety and soundness examinations conducted by bank regulators to review their financial stability, as well as their operational, compliance and risk management programs.
Maintains a comprehensive insurance package?	✔	May Not	As a regulated financial institution, IRA custodians must maintain comprehensive insurance as a safeguard in the unlikely event of employee dishonesty or error.
Conducts internal and/or external audits?	✔	May Not	IRA custodians are required to have adequate internal and external audits performed to ensure sound controls are in place for financial health, operational compliance, information security and risk management.
Complies with IRS and DOL statutory requirements?	✔	May Not	IRA custodians are required to comply with IRS and DOL statutory requirements. Custodians typically perform administrative reviews of customer's investment purchases to look for potential risks of prohibited transactions, and if necessary, may request customers obtain a legal opinion. Prohibited transactions can disqualify an IRA's tax-exempt status and carry significant taxes and penalties.
Complies with federal BSA/AML, CIP and Patriot Act rules and requirements?	✔	May Not	IRA custodians are required to develop, administer and maintain an effective program for compliance with all OFAC and FinCEN monitoring as well as all requirements of BSA/AML, CIP and Patriot Act.
Maintains information security policy to protect its customers?	✔	May Not	As regulated financial institutions, IRA custodians are required to maintain adequate information security policies and procedures to protect customers' personal and financial information.
Maintains disaster recovery/emergency preparedness plan to ensure business continuity?	✔	May Not	IRA custodians are required to develop, administer and maintain effective disaster recovery/emergency preparedness plans to help get the business back up and going in the event a natural or man-made disaster disrupts normal operations.
Conducts annual employee training on Bank Secrecy Act/Anti Money Laundering, Customer Identification Program, Information Security, and Disaster Recovery?	✔	May Not	IRA custodians are required to conduct training for new employees as well as provide ongoing annual training on these compliance topics.

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