



### A Closer Look at Financial Custodianship

In the world of finance, custodians are the unsung heroes, fulfilling a vital role but far from the spotlight. In the interest of general investor education, we thought it would be helpful to take a moment to explain that role, redirecting the spotlight — at least for a few short pages — to custodians, their work, and their importance.

#### Custody Defined

A financial custodian is an institution that takes physical or digital possession of a customer's financial assets. Custody refers to the holding and safekeeping of financial assets and the maintenance of tax records related to those assets. The custodian may physically hold cash, stocks, bonds, or other assets, but given current technology, these are now held primarily in electronic form. Institutions like banks, brokers, and trust companies, when serving as custodians, are entrusted with safeguarding a client's assets and ensuring they are not lost, stolen, or misused.

#### Services Rendered by Custodians

Financial custodians offer a variety of services:

- **Portfolio Accounting:** Custodians track and report on portfolio balances, transactions, and valuations.
- **Statements and Tax Forms:** Custodians generate account statements detailing transactions, balances, and cash movements. They also produce tax forms related to income received and capital gains and losses incurred to support tax return preparation.
- **Trade Settlement:** When securities are bought or sold, the custodian is responsible for ensuring the transactions are settled accurately.



- **Collection of Dividends and Interest:** Custodians collect investment income and report receipt of this income to the IRS.
- **Corporate Actions:** Custodians work with clients or their advisors to respond to corporate actions such as mergers, splits, and spinoffs and accurately account for these changes and any tax consequences thereof.

### Distinguishing Registered Investment Advisors from Custodians

Registered Investment Advisors (RIAs), like Mitchell Sinkler & Starr, are distinct from financial custodians. Whereas custodians are tasked with asset safekeeping, RIAs are involved in the underlying management of those assets, offering advice and making investment decisions on behalf of their clients. Also, unlike custodians, RIAs are defined as "fiduciaries" by the Securities and Exchange Commission and are legally bound to act in the client's best interests by putting client interests ahead of their own. Custodians hold the assets and must minimize the risk of their theft or loss but do not have fiduciary responsibilities to clients because they have no control over how the assets are managed.

### Conclusion

Financial custodians play an indispensable role in the global financial system. As economies have grown around the world, institutions that specialize in providing these services have become highly regulated and have achieved a considerable level of technical sophistication. As a result, they can deliver the accuracy and dependability that we, as investors, have come to expect and rely upon — even if we don't spend much time talking about it.

*William D. Wilson*