

SEC · INVESTMENT ADVISERS ACT · RULE 205-3

SEC Raises “Qualified Client” Thresholds

Higher asset and net-worth tests under Rule 205-3 of the Investment Advisers Act take effect June 29, 2026.

REVISED QUALIFIED CLIENT THRESHOLDS

Test	Prior	Revised
Assets-under-management test	\$1,100,000	\$1,400,000
Net-worth test	\$2,200,000	\$2,700,000

What changed

On April 28, 2026, the Securities and Exchange Commission issued an order (Release No. IA-6961) adjusting for inflation the dollar-amount tests in Rule 205-3 under the Investment Advisers Act of 1940. Rule 205-3 is the exemption that permits an investment adviser to charge performance-based compensation, including the carried interest charged by most private fund managers, but only to a client that qualifies as a “qualified client.” A person generally satisfies that standard by holding the requisite assets under the adviser’s management immediately after entering into the advisory contract, or by having a net worth above the applicable threshold immediately beforehand. The Commission must revise these amounts for inflation about every five years under Section 418 of the Dodd-Frank Act; the current adjustment reflects inflation from 2021 through year-end 2025.

Who is affected

The change affects any registered investment adviser or private fund manager that charges performance fees, incentive allocations, or carried interest in reliance on the qualified client exemption. Beginning on the effective date, a new client must meet the higher thresholds before the adviser may charge performance-based compensation.

What to do

- Update subscription agreements, qualified-client representations, and fund offering materials to reflect the revised figures.
- Confirm that any advisory contract entered into on or after June 29, 2026 satisfies the \$1,400,000 assets-under-management test or the \$2,700,000 net-worth test before charging performance compensation.
- Revise investor onboarding and compliance checklists accordingly.

Effective date and transition

The order takes effect on June 29, 2026 and does not apply retroactively. Under the transition provisions of Rule 205-3, an advisory contract that satisfied the rule when entered into remains valid, and the revised thresholds generally do not disturb existing relationships. A person who becomes a party to a contract after the effective date, however, is tested under the thresholds then in effect. The net-worth test excludes the value of the client’s primary residence.

How BlackHill can help

Our securities and funds practice can review your fund documents and qualified-client procedures ahead of the effective date. To discuss how this adjustment affects your offering, contact us at info@blackhill.law or (855) 625-7085.

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