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Memorandum

SEC Raises Qualified Client Thresholds: Implications for Registered Funds and Private Funds

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The U.S. Securities and Exchange Commission ("SEC") issued an order on April 28, 2026 making inflation-adjusted increases to the dollar amount thresholds for meeting the definition of "qualified client" in Rule 205-3 under the Investment Advisers Act of 1940 (the "Advisers Act").[1] These are ordinary course threshold increases made pursuant to the SEC's obligation under Section 418 of the Dodd-Frank Act to adjust the QC thresholds every five years. The new thresholds apply prospectively to contractual relationships entered into on or after the order's June 29, 2026 effective date and do not generally apply retroactively to contractual relationships entered into prior to this date, subject to Rule 205-3's transition provision.

To qualify as a QC on or after June 29, 2026, a natural person or company must, immediately prior to entering into an investment advisory contract (or, with respect to the assets under management threshold, immediately after entering into an investment advisory contract):

- have at least $1.4 million of assets under management with the adviser;
- have a net worth[2] of more than $2.7 million;

[1] Section 205(a)(1) of the Advisers Act generally prohibits registered investment advisers from charging compensation based on capital gains or capital appreciation (a "performance fee"). Rule 205-3 provides an exemption from this prohibition where a client is a "qualified client" as defined in the rule (a "QC"), which confers QC status on clients that meet either an assets-under-management test or a net worth test, or that otherwise qualify as a qualified purchaser or a "knowledgeable employee" of the adviser. Additionally, Section 205(b)(4) exempts investment advisory contracts between registered investment advisers and funds exempt from the definition of "investment company" under Section 3(c)(7) of the Company Act.

Certain advisory contracts between registered investment advisers and registered investment companies provide for the payment of a performance fee on net profits or another formulation that includes capital gains and/or appreciation. For a registered investment company to pay a performance fee, each investor in such fund (and the fund itself) must meet the requirements for QC status. See Rule 205-3(b). Investment advisory contracts with a "business development company," as defined in Section 2(a)(48) of the Company Act, can include a performance fee limited to 20% of realized capital gains computed net of all realized capital losses and unrealized capital depreciation in accordance with Section 205(b)(3) of the Advisers Act without limiting their investors to QCs.

Because qualified purchaser and knowledgeable employee status independently satisfy the QC definition, a performance fee-paying fund's exposure to the new dollar thresholds depends on its investor base. Funds that principally admit investors who qualify under those non-dollar categories may see limited impact. Funds that underwrite eligibility using the dollar-based tests should expect a narrower pool of eligible investors for post-effective-date subscriptions and transfers.

[2] In the case of a client who is a natural person, "net worth" for purposes of the Rule includes assets held jointly with a spouse but excludes the value of such natural person's primary residence and indebtedness secured by such residence.

- be a "qualified purchaser" as defined in Section 2(a)(51)(A) of the Investment Company Act of 1940 (the "Company Act"); or
- hold an executive officer or similar senior role within the investment adviser or serve the adviser as an employee who regularly participates in investment activities.[3]

Key Timing Note: For performance fee-paying registered funds that issue shares on a monthly basis as of the first business day of the month, the new thresholds will apply to purchases of shares starting with the July 1, 2026 subscription date.

Dollar Amount Threshold Increases

Test	Prior amount	New amount	Effective date
Assets under management with the adviser	$1,100,000	$1,400,000	June 29, 2026
Net worth	$2,200,000	$2,700,000	June 29, 2026

Implications for Registered Investment Companies (RICs)

MONTHLY SUBSCRIPTION OPERATIONS AND TRANSFER-AGENT COORDINATION FOR JULY SUBSCRIPTIONS

Performance fee-paying funds with monthly subscription cycles should coordinate now with their transfer agents and administrators to apply the new thresholds to July 1st subscriptions.[4] Advisers may apply the current, lower thresholds to June 1st subscriptions, but should take steps now to align intake controls and cut-offs so that July 1st subscriptions are underwritten to the updated amounts.

[3] Rule 205-3(d)(1)(iii) under the Advisers Act defines QCs to include any natural person who, immediately prior to entering into the investment advisory contract, is: (1) an executive officer, director, trustee, general partner, or person serving in a similar capacity, of the investment adviser; or (2) an employee of the investment adviser (other than an employee performing solely clerical, secretarial or administrative functions with regard to the investment adviser) who, in connection with his or her regular functions or duties, participates in the investment activities of such investment adviser, provided that such employee has been performing such functions and duties for or on behalf of the investment adviser, or substantially similar functions or duties for or on behalf of another company for at least 12 months. We note that while this definition bears a close resemblance to the definition of "knowledgeable employee" in Company Act Rule 3c-5(a)(4), the two definitions diverge to some extent (most notably, the Rule 3c-5 definition explicitly scopes in advisory board members).

[4] This is because subscriptions that settle on or after June 29, 2026 will be subject to the higher thresholds even if subscription documents were executed before June 29. Conversely, subscriptions that settle prior to June 29, 2026 are subject to the current, lower thresholds.

PROSPECTUS SUPPLEMENTS, SUBSCRIPTION DOCUMENTS, COMPLIANCE MANUAL AND INVESTOR MATERIAL UPDATES

Funds relying on the QC exemption (typically, tender offer closed-end funds with monthly subscriptions) should supplement their prospectuses and SAIs (as needed) to incorporate the higher thresholds and refresh subscription agreements, transfer documents, and qualification questionnaires so that such intake materials match the updated amounts.

Where possible, funds should also consider replacing hard-coded dollar references in compliance manuals and investor materials with a reference to the "most recent Commission order" to reduce the need for updates in future cycles.

FOLLOW-ON INVESTMENTS AND EXISTING INVESTORS

Under Rule 205-3's transition provision, an advisory contract that met the Rule's requirements at the time it was entered into is not subject to the updated thresholds. Existing fund investors are not retroactively required to re-qualify, but subscriptions made by new investors to the fund on or after June 29, 2026, should be underwritten to the $1.4 million and $2.7 million standards and supported by investor certifications.

Implications for Private Funds

SECTION 3(C)(7) FUNDS

The threshold increases are not applicable to Section 3(c)(7) funds, which are exempt from the restriction on the charging of performance fees pursuant to Section 205(b)(4) of the Advisers Act. Sponsors and advisers should nevertheless identify any subscription documents that include QC representations and update them to reflect the new thresholds.

SECTION 3(C)(1) FUNDS

The threshold increases are applicable to investors in Section 3(c)(1) funds, which are not statutorily exempt from the performance fee restrictions under Section 205(a)(1) (unlike 3(c)(7) funds) and whose investors are not required to be qualified purchasers. Advisers should align closing calendars so that post-effective-date admissions and transfers[5] satisfy the $1.4 million and $2.7 million standards, and should obtain updated investor representations from investors whose subscriptions to the fund are accepted on or after the effective date.

COMPLIANCE POLICIES AND PROCEDURES AND OTHER MATERIALS

Advisers should review compliance manuals, qualification or suitability checklists, private placement memoranda, and training materials for references to the QC thresholds and update them to reflect the new thresholds as of the

[5] Note, however, that transfers of ownership interests made as gifts or bequests or transfers related to legal separation or divorce do not cause the transferee to "become a party" to the investment advisory contract and thus do not trigger the QC requirement.

effective date. Again, to future-proof these materials, it may be advisable to replace fixed dollar references with a reference to the "most recent Commission order."

Conclusion

The SEC's order raises the QC thresholds to $1.4 million and $2.7 million, effective June 29, 2026. Registered funds that rely on Rule 205-3 should update prospectus and subscription materials, coordinate with transfer agents so that July subscriptions and later entries are underwritten to the new thresholds, and collect updated investor certifications for post-effective-date entries. Private fund advisers should focus on any performance fee-paying Section 3(c)(1) vehicles they may advise, where the revised dollar tests apply to post-effective-date subscriptions and transfers, while Section 3(c)(7) funds should remain largely unaffected but remain alert to any materials that nevertheless reference the soon-to-be-outdated QC thresholds.

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