

SEC Increases Qualified Client Thresholds for Charging Performance Fees

by Bradley M. Pugh, David Tang, Michael Schmieder, and Wesley Papiernik

On April 28, 2026, the Securities and Exchange Commission (“SEC”) issued a final order (the “Order”)¹ increasing the dollar amount thresholds to be a “qualified client” under Rule 205-3 under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). The Order is effective on June 29, 2026.

Key Points

Under Rule 205-3 (the “Rule”), an SEC registered investment adviser may only charge performance-based compensation to managed account clients and investment fund investors that meet the definition of a “qualified client”. The Rule defines qualified client in reference to either (a) a minimum net worth, (b) a minimum dollar amount of assets under management with the investment adviser, or (c) “qualified purchaser” status as defined in section 2(a)(51)(A) of the Investment Company Act of 1940, as amended (the “Investment Company Act”). The SEC periodically adjusts the qualified client net worth and assets under management thresholds for inflation.

Beginning on June 29, 2026, the qualified client net worth and assets under management thresholds will be either:

- A net worth of \$2.7 million (increased from \$2.2 million). This threshold includes assets held jointly with a spouse, but excludes the value of a primary residence and certain related debt; or
- Assets under management with the adviser of at least \$1.4 million (increased from \$1.1 million) immediately after entering into an advisory agreement or fund subscription document.

For SEC registered investment advisers managing private funds relying on the Investment Company Act 3(c)(1) exception from investment company registration that charge a performance-based fee, each underlying fund investor must satisfy the qualified client definition. The Order will also impact certain investment advisers that are not registered with the SEC, as several states have adopted state-level private fund

Related People

- Bradley M. Pugh
- David Tang
- Michael Schmieder
- Wesley Papiernik

Related Capabilities

- Investment Management
- Investment Funds
- Financial Services Regulatory
- Corporate Governance & Compliance

investment adviser registration exemptions that require private fund managers to offer fund interest exclusively to qualified clients as defined under the Rule (in some cases, even if no performance-based compensation is charged).

The current lower thresholds will continue to apply before the Order's effective date, and the new thresholds will only apply to newly opened accounts or fund investments after June 29, 2026.

How to Prepare for Compliance

SEC registered investment advisers that charge performance-based compensation, and certain investment advisers relying on state-level private fund adviser registration exemptions, should consider taking the following steps to prepare for compliance with the Order:

- Update the qualified client representations in separately managed account agreements to prepare for any new relationships after the effective date.
- Update any private fund offering document for your 3(c)(1) private funds that will start or still be offering interests after June 28, 2026 (including subscription documents, investor questionnaires or transfer agreements) to account for the new thresholds.
- Review compliance policies and procedures and related training materials to ensure that any references to qualified client thresholds are updated.
- Review any marketing materials to ensure that any references to the qualified client thresholds are updated.
- Coordinate with operations and investor relations departments, as well as any fund administrators, to ensure that they are all using separately managed account agreements and fund offering documents that have updated qualified client thresholds after June 28, 2026.

How Can Dorsey Help

Dorsey has an experienced team dedicated to advising registered investment advisers on Advisers Act regulatory compliance. Please contact David Tang and Brad Pugh to discuss how Dorsey can assist in bringing your investment advisory firm into compliance with the Order.

¹Order *available at*

<https://www.federalregister.gov/documents/2026/05/01/2026-08480/order-approving-adjustment-for-inflation-of-the-dollar-amount-tests-in-rule-205-3-under-the>