
May 7, 2026

SEC Increases “Qualified Client” Dollar Amount Thresholds

On April 28, 2026, the SEC adjusted for inflation the dollar amount thresholds for both the assets under management and net worth tests for “qualified clients” under Rule 205-3 of the Investment Advisers Act of 1940, as amended.¹ Rule 205-3 permits investment advisers to receive performance-based compensation only when the client is a “qualified client,” which captures performance fees or distributions of carried interest. After giving effect to the increase, a qualified client² will be a client that either:

1. has at least \$1.4 million in assets under management with the investment adviser immediately after entering into the advisory contract; or
2. the investment adviser reasonably believes, immediately prior to entering into the contract, has a net worth of more than \$2.7 million.

As a reminder, each investor in a private fund relying on the exemption to the definition of an investment company under § 3(c)(1) of the Investment Company Act of 1940, as amended (the “Investment Company Act”), is considered a “client” for purposes of Rule 205-3; consequently, each investor in a § 3(c)(1) fund is required to satisfy the qualified client standard if the investment adviser is receiving performance-based compensation. The foregoing does not apply to a private fund relying on the exemption to the definition of an investment company under § 3(c)(7) of the Investment Company Act, which is itself a “client” for purposes of Rule 205-3.

The increases are effective June 29, 2026. Clients that enter into advisory agreements prior to the effective date may continue to rely on the prior dollar amount thresholds.³

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This memorandum is not intended to provide legal advice, and no legal or business decision should be based on its content. Questions concerning issues addressed in this memorandum should be directed to:

Our Investment Funds Group

The Paul, Weiss Investment Funds Group serves a diverse group of private equity firms, ranging from up-and-coming middle-market firms to large alternative asset managers. Our deep and sophisticated team of investment funds lawyers has experience

¹ A copy of the SEC’s Order may be found [here](#).

² Investment Advisers Act Rule 205-3(d) also provides that a “qualified purchaser” or a “knowledgeable employee” is also a “qualified client” for purposes of Rule 205-3.

³ The transition rules set forth in Rule 205-3(c)(1) provide that if an investment adviser entered into an advisory agreement prior to the effective date with a client that satisfied the qualified client status rule in effect at the time the advisory agreement was entered into, the qualified client rule will be considered satisfied; however, if a client that was not a party to the advisory agreement becomes a party to it on or after June 29, 2026 (including an investor coming into a 3(c)(1) fund on or after June 29, 2026), the new standard would apply (e.g., if the new investor is relying on the net worth test, it would need to meet the new \$2.7 million net worth threshold).

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in all aspects of the organization and operation of alternative asset management products across the spectrum. Our extensive market knowledge is built on decades of experience working hand in hand with private equity managers, investors and other key market participants, equipping us with up-to-the-minute data about evolving trends and market dynamics and positioning to offer cutting-edge, practical advice. We provide advice on both day-to-day questions and firm-defining decisions with respect to the full range of asset management services, including fund and management company formation, seed capital and strategic arrangements, partner arrangements and employee compensation, regulatory and compliance considerations, and investment management M&A. The full suite of the firm’s resources are at our clients’ fingertips, and we work closely across practice areas to provide seamless advice to private equity funds throughout their life cycles.

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