



Ryan Nichols

Partner
303.295.8298
Boulder, Denver
rlnichols@hollandhart.com



Mary Bush

Associate
303.295.8522
Denver
mebush@hollandhart.com

SEC Increases "Qualified Client" Thresholds for Performance Fees

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On April 28, 2026, the U.S. Securities and Exchange Commission (the **SEC**) issued an order adjusting the dollar amount thresholds for determining "qualified client" status under Rule 205-3 of the Investment Advisers Act of 1940, as amended (the **Advisers Act**). The updated thresholds will take effect on June 29, 2026 (the "**Order**")¹.

Background

Section 205(a)(1) of the Advisers Act generally prohibits an investment adviser entering, extending, renewing, or performing any investment advisory contract that provides for performance compensation or performance fees. Rule 205-3 under the Advisers Act provides an exemption from that prohibition where the client is a "qualified client."

Before the Order becomes effective, Qualified clients include either:

- investors with at least \$1,100,000 of assets under the adviser's management immediately after entering the advisory contract; or
- a client with, to the adviser's reasonable belief, a net worth exceeding \$2,200,000 immediately prior to entering the contract.

Updated Thresholds

Effective June 29, 2026, the qualified client thresholds will be adjusted to the following:

- the required amount of assets under the adviser's management will increase from \$1,100,000 to **\$1,400,000**
- the net worth of the client will increase from \$2,200,000 to **\$2,700,000**

The updated thresholds apply to contractual relationships entered into on or after the effective date of June 29, 2026. The Order does not apply retroactively to contractual relationships that were already in existence prior to the effective date. However, if a natural person or company who was not a party to an existing advisory contract becomes a party, including an equity owner of a private investment company advised by the adviser, the thresholds in effect at that time will apply to that person or company.

Immediate Action

Investment advisers who charge or intend to charge performance-based fees should:

- review existing advisory contracts and client qualification records to

identify clients who may not meet the new thresholds for new or renewed contracts entered into on or after June 29, 2026;

- update compliance policies and procedures to incorporate the revised dollar amount thresholds into the firm's qualified client determination process;
- evaluate any clients who may become new parties to existing advisory contracts after June 29, 2026, as those clients will need to satisfy the updated thresholds; and
- revise Form ADV disclosures, marketing materials, and offering documents as appropriate to reflect the new thresholds.

To Whom Does This Apply?

This Order applies to any investment adviser registered or required to be registered with the SEC that charges, or seeks to charge, performance-based compensation under Rule 205-3. Given that certain knowledgeable employees and qualified purchasers qualify as qualified clients under separate provisions of Rule 205-3, the increased dollar amount thresholds will not apply to those individuals. The “qualified client” exemption is commonly relied upon by advisers to private funds and advisers offering separately managed accounts with performance fee arrangements.

¹ See SEC, *Order Approving Adjustment for Inflation of the Dollar Amount Tests in Rule 205-3 under the Investment Advisers Act of 1940*, Investment Advisers Act Release No. IA-6961 (Apr. 28, 2026).

NOTE: Holland & Hart Associate Deepti Nathan also contributed to this article

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