

Client Update

SEC Increases Qualified Client Net Worth Threshold

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On June 14, the Securities and Exchange Commission (the “SEC”) issued an order increasing the dollar amount of the net worth threshold in Rule 205-3 under the Investment Advisers Act of 1940 from \$2,000,000 to \$2,100,000.¹

The order is effective as of August 15, 2016; existing client fee arrangements entered into prior to the effective date of the order will not generally be impacted by the change.²

The change impacts fees charged to, among others, private funds that rely on Section 3(c)(1) of the Investment Company Act of 1940, as well as separately managed accounts. As revised, Rule 205-3 defines a “qualified client” as a person who:

- has at least \$1,000,000 under the management of the investment adviser immediately after entering into the contract; or
- the investment adviser reasonably believes has a net worth (together, in the case of a natural person, with assets held jointly with a spouse) of more than \$2,100,000 immediately prior to entering into the contract (subject to certain adjustments).

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Please do not hesitate to contact us with any questions.

¹ Order Approving Adjustment for Inflation of the Dollar Amount Tests in Rule 205-3 under the Investment Advisers Act of 1940, Advisers Act Release No. 4421 (June 14, 2016), available at: <http://www.sec.gov/rules/other/2016/ia-4421.pdf>.

² For the background of the adjustment, see our client update: Proposed Order Regarding the SEC’s Performance Fee Rule: Inflation Adjustments to Qualified Client Thresholds (June 3, 2016), available at: http://www.debevoise.com/~media/files/insights/publications/2016/06/20160603_proposed_order_regarding_the_secs_performance_fee_rule.pdf; Performance-Based Investment Advisory Fees, Advisers Act Release No. 4388 (May 18, 2016), available at: <https://www.sec.gov/rules/other/2016/ia-4388.pdf>.