

# SEC Raises “Qualified Client” Thresholds: What Private Fund Sponsors and Investment Advisers Should Know

BY Dean Galaro and Terrance Parham

The Securities and Exchange Commission (SEC) will soon adopt inflation adjustments to the “qualified client” thresholds under Rule 205-3 of the Investment Advisers Act of 1940. **The new thresholds are effective June 29, 2026**, after which an investor generally must satisfy one of the following tests to be treated as a qualified client:

Qualified Client Test	Current Threshold	New Threshold Effective June 29, 2026
<i>Assets under management with the adviser</i>	\$ 1.1 million	\$ 1.4 million
<i>Net worth</i>	\$ 2.2 million	\$ 2.7 million

The new thresholds do not generally apply retroactively to investors who joined a fund before the effective date. For most sponsors, the immediate action item is practical: identify affected funds and advisory relationships, update forms, and make sure subscription and transfer processes apply the correct thresholds after June 29.

## WHO SHOULD PAY ATTENTION?

The funds and advisers most likely to be affected are those admitting investors who may be close to the existing thresholds, particularly natural persons, family offices, smaller entities, and other non-institutional investors.

Adviser or Fund Type	Why It Matters
SEC-registered advisers, and advisers required to be SEC-registered	Rule 205-3 generally restricts performance-based compensation unless the client is a qualified client or another exemption applies
3(c)(1) private funds	For many 3(c)(1) funds, the adviser must look through the fund and confirm that each investor is a qualified client if the adviser receives performance-based compensation
Hedge funds	Hedge funds often charge incentive allocations and may accept investors who are closer to the qualified client thresholds, making onboarding and transfer procedures especially important
Private equity, venture capital, and real estate funds	These funds may still need to confirm qualified client status where the adviser charges carried interest and Rule 205-3 applies, although many investors may also satisfy other eligibility standards
Texas private fund advisers	Certain 3(c)(1) funds relying on the Texas private fund adviser exemption can only accept qualified client investors
Separately managed accounts	Performance fee arrangements in advisory agreements should be reviewed to confirm the client satisfies the applicable qualified client threshold

## TEXAS-SPECIFIC CONSIDERATIONS

Texas-based advisers should give this update particular attention. Under Texas’ private fund adviser exemption, advisers to certain 3(c)(1) funds that are not private equity, real estate, or venture capital funds may need to ensure that all investors meet the SEC’s qualified client standard at the time of investment. Even where an adviser is not SEC-registered, Texas law may require investors to be qualified clients. Managers should consult counsel and confirm current Texas requirements before relying on the exemption. Texas-registered investment advisers should also review performance fee arrangements, because Texas rules generally require compliance with Rule 205-3 when charging fees based on capital gains or capital appreciation.

## WHAT SHOULD ADVISERS DO NOW?

Before June 29, advisers and fund sponsors should review and update:

- Subscription agreements
- Investor questionnaires
- Transfer forms
- Compliance manuals and checklists
- Side letter forms
- Investment management agreements
- Fund administration procedures

Sponsors should also alert investor relations and fund administration teams to the June 29 effective date. This is particularly important for subscriptions or transfers that are signed before the effective date but accepted after it.

## HOW WE CAN HELP

The Investment Funds team at Wick Phillips can help advisers and fund sponsors determine whether the new qualified client thresholds affect their funds, fee arrangements, and investor onboarding process. We can review existing offering and subscription materials, update investor eligibility questionnaires, and help identify where qualified client status should be confirmed, including at admission, subsequent closings, and transfers.

For Texas-based advisers, we can also help assess whether state-level requirements create additional qualified client considerations, particularly for 3(c)(1) funds and advisers relying on the Texas private fund adviser exemption.

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