

# Inflation Adjustments of Qualified Client Thresholds



The Securities and Exchange Commission amended rule 205-3 of the Investment Advisers Act of 1940 to:

- Streamline the process relating to the adjustment of the assets-under-management and net worth tests for “qualified client” status; and
- Ensure that the rule text remains at all times consistent with the inflation adjustment orders periodically issued by the Commission.

## Ensuring Consistency between Orders and Rule

The Commission is required by statute to adjust for the effects of inflation the thresholds by which persons satisfy two of the prongs of the “qualified client” definition contained in rule 205-3 of the Advisers Act. Rule 205-3 codifies the specific dollar amount thresholds. Historically, the Commission adjusts these thresholds every five years by issuing an order and, in addition, the Commission amends rule 205-3 through a separate rulemaking.

Under these amendments, rule 205-3 will refer to the Commission’s “most recent order,” rather than specific dollar amount thresholds, to ensure that the rule remains consistent with the amounts contained in the orders and to provide clarity to market participants.

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## Definition of “Qualified Client”

The Advisers Act generally prohibits investment advisers registered with the Commission or required to be registered with the Commission from entering into, extending, renewing, or performing any investment advisory contract that provides for compensation to the adviser in the form of performance fees. Rule 205-3 exempts an investment adviser from the prohibition when the client is a “qualified client,” which includes a client that meets an assets-under-management test or a net worth test under the rule. The Advisers Act requires that the Commission, by order, adjust for the dollar amount thresholds of those two qualified client tests.

The Commission most recently issued an order on June 17, 2021, effective as of August 16, 2021, increasing for the effects of inflation the dollar amount threshold of the assets-under-management test from \$1,000,000 to \$1,100,000 and the dollar amount threshold of the net worth test from \$2,100,000 to \$2,200,000.

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## What's Next

Upon effectiveness, the text of rule 205-3 will refer, in relevant part, to the most recent order issued by the Commission, on June 17. The Commission will next adjust the thresholds for the effects of inflation on or about May 1, 2026.

The final amendments are technical, and do not change the frequency of the Commission's inflation adjustments or the manner by which inflation adjustments are calculated.

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### ***Additional Information:***

The final amendments will be effective on the date of publication in the Federal Register.