

# KIRKLAND & ELLIS

Kirkland AIM

## SEC Announces New Qualified Client Thresholds

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The SEC is raising the dollar-based thresholds that a client or private fund investor must meet to be deemed a qualified client under the Advisers Act, effective June 29, 2026.<sup>1</sup>

This change is relevant to SEC-registered investment advisers because they generally cannot charge (directly or indirectly) a client or private fund investor a performance-based fee (e.g., a carried interest) unless the client or private fund investor is a qualified client.<sup>2</sup>

### New Qualified Client Thresholds

Beginning June 29, 2026, to be a qualified client under the updated thresholds, a client or private fund investor must have:

- at least \$1.4 million (up from \$1.1 million) in assets under management with the adviser immediately after entering into the advisory arrangement (e.g., an investment in a private fund);<sup>3</sup> or
- a net worth (together with assets held jointly with a spouse, but excluding the value of a person's primary residence and related debt) greater than \$2.7 million (up from \$2.2 million) at the time of entering into the advisory arrangement (e.g., an investment in a private fund).

Qualified purchasers and knowledgeable employees of an adviser are automatically deemed qualified clients, and the performance-based fee prohibition does not generally apply to non-U.S. clients and fund investors. As a result, the dollar-based

qualified client standards are generally relevant only for an adviser to (i) a private fund relying on the 100-or-fewer beneficial owner exemption (i.e., Section 3(c)(1) of the Investment Company Act) from registration as an investment company, (ii) a separate account with a client that is not a qualified purchaser or knowledgeable employee, and (iii) an Investment Company Act registered fund.

Advisers can continue to rely on the current lower qualified client thresholds when entering into contracts with clients and private fund investors (e.g., when closing on fund commitments or approving limited partner transfers) until the effective date, and the higher thresholds only apply to contracts with clients and private fund subscriptions entered into beginning June 29, 2026.

## Next Steps

**Update Fund Offering Documentation.** Private fund advisers need to update fund offering and transfer documentation to reflect the new qualified client standards (e.g., questionnaires in fund subscription materials or transfer agreements for Section 3(c)(1) funds).

**Assess Timing of Upcoming Closings.** Private funds advisers with any funds currently in market that will not hold a final closing by or before June 28, 2026:

- should consider whether to close on any pending investor commitments to Section 3(c)(1) funds by June 28, 2026, to avoid having to update or supplement subscription documentation for those investors; and
- otherwise should consider when to provide updated fund subscription materials or supplemental questionnaires with the updated thresholds to potential fund investors.

Private fund advisers should similarly assess any in-process fund transfers.

**Update Compliance Program and Other Documentation.** Advisers should also review other documentation, such as compliance policies and procedures, private placement guidelines, marketing materials and training materials, for references to the dollar-based qualified client thresholds and make any necessary updates.

Please contact the fund formation and regulatory attorneys with whom you regularly work with any questions regarding the new qualified client thresholds or for assistance in updating documents.

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1. See Advisers Act [Rule 205-3\(d\)](#) for the definition of qualified client. The SEC is required to adjust the dollar-based qualified client thresholds for inflation every five years.↩

2. See Advisers Act Section 205(a)(1) (prohibition on charging performance-based fees), Advisers Act Rule 205-3 (exemption from the prohibition and definition of qualified client), and related SEC guidance for further information regarding the application of the performance-based fee prohibition. The prohibition on performance-based fees does not apply to Investment Company Act Section 3(c)(7) qualified purchaser funds, non-U.S. person clients or business development companies using a proscribed calculation methodology.↩

3. The value of assets under management with an adviser is calculated as the total of (1) any uncalled fund capital commitments plus (2) the gross asset value or fair value of existing investments managed by the adviser.↩

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### Practices

- Investment Funds
- Regulatory Solutions

## Suggested Reading

- 23 April 2026 Kirkland AIM SEC-CFTC Propose to Reduce Form PF Regulatory Reporting Burden
- 28 January 2026 Kirkland AIM SEC Softens Model Net Performance Requirements and Provides Exception to Marketing Rule Disqualifications
- 05 January 2026 Kirkland AIM Private Fund Manager U.S. SEC / CFTC Compliance: 2026 Key Dates

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