

Corporate & Financial Weekly Digest

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SEC Raises "Qualified Client" Thresholds

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On July 12, the Securities and Exchange Commission issued an order raising the thresholds for determining who is a "qualified client" for purposes of Rule 205-3 under the Investment Advisers Act of 1940. Rule 205-3 exempts an investment adviser from the prohibition against charging a client performance fees in certain circumstances, including when the client is a qualified client. Under the order, a qualified client is one who: (1) has at least \$1 million under the management of the adviser immediately after entering into the advisory contract, or (2) the adviser reasonably believes has a net worth of more than \$2 million at the time the contract is entered into. These thresholds were raised from \$750,000 and \$1,500,000, respectively, to adjust for inflation, as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The SEC's order becomes effective on September 19.

In its initial proposal to increase the qualified client thresholds, the SEC also proposed, among other things, to: (1) exclude the value of a person's primary residence from the test of whether a person has sufficient net worth to be considered a qualified client, and (2) add certain transition provisions to the rule to allow an investment adviser and its clients to maintain existing performance fee arrangements that were permissible when the advisory contract was entered into, even if performance fees would not be permissible under the contract if it were entered into at a later date. The SEC has not yet addressed these additional proposals.

Click [here](#) to read the SEC's order.

Click [here](#) to read the SEC's proposed amendments to Rule 205-3.

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