

Preparing for the 2026 Qualified Client Threshold Increase: Why Advisers Are Acting Now



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The SEC's June 29, 2026 increase to the "qualified client" thresholds under Rule 205 3 is prompting advisers to review onboarding, subscription, transfer, and compliance processes now.

Although this is an inflation adjustment rather than a new rulemaking, the mid-year effective date creates real operational implications for private fund managers and other advisers that charge performance-based fees.

On April 28, 2026, the US Securities and Exchange Commission (SEC) issued a final order adjusting the financial thresholds used to determine whether a client is a "qualified client" for purposes of performance-based fee arrangements under the Investment Advisers Act. Effective **June 29, 2026**, the thresholds will increase to US\$1.4 million in assets under management with the adviser and US\$2.7 million in net worth, excluding the value of a primary residence and certain related debt. The changes reflect the SEC's required five-year inflation adjustment and apply to new advisory relationships and investors admitted on or after the effective date.

Which Private Fund Advisers and 3(c)(1) Funds Are Most Affected

The update is particularly significant for advisers managing private funds that rely on the Section 3(c)(1) exemption. In those structures, each investor is treated as a "client" for purposes of Rule 205 3, meaning the adviser must confirm that each investor meets the qualified client standard in order to charge performance-based fees. This requirement is most directly relevant to SEC-registered investment advisers and is not generally applicable in the same way to exempt reporting advisers.

Impact on Fund Subscriptions, Investor Transfers, and Account Onboarding

As a result, the revised thresholds directly affect new fund subscriptions, investor transfers, secondary transactions, and separately managed account onboarding. Importantly, the new thresholds apply to investors admitted on or after June 29, 2026, while existing investors are generally permitted to rely on prior eligibility determinations.

Form ADV, Investor Documentation, and OTA Update Considerations

Although the SEC's order does not expressly require advisers to amend [Form ADV](#) or investor documentation outside the normal annual update cycle, many firms are undertaking targeted "other-than-annual" (OTA) updates in advance of the effective date. The practical goal is to ensure that onboarding documentation, investor representations, eligibility questionnaires, and related disclosures align with the revised thresholds when they

must be applied. In particular, firms are reviewing subscription materials, investor questionnaires, transfer documentation, and, in some cases, Form ADV disclosures, including Item 6, to confirm that they do not reference outdated dollar thresholds or otherwise create inconsistencies with post-June 29 eligibility standards.

Operational Readiness, Compliance Risk, and Fundraising Efficiency

Advisers are also evaluating investment management agreements, limited partnership agreements, side letters, and internal compliance procedures to ensure consistent treatment of qualified client requirements across documents and workflows. In parallel, many firms are strengthening onboarding controls around investor eligibility determinations to reduce the risk of applying superseded thresholds once the rule becomes effective. The primary driver of these mid-year updates is timing: because capital raising, investor admissions, transfers, and account onboarding occur continuously, firms cannot rely solely on annual update cycles without increasing compliance risk. Failure to apply the updated thresholds after June 29, 2026 may result in impermissible performance-based fee arrangements and potential violations of Section 205 of the Advisers Act. Looking ahead, firms that treat this change as a broader readiness exercise may be better positioned to streamline investor onboarding, reduce friction in fundraising, and demonstrate stronger governance to prospective investors and distribution partners.

Why the 2026 Qualified Client Update Matters for Business Readiness

The 2026 update represents an inflation adjustment, not a fundamental rewrite of the performance fee framework under Rule 205 3, and it does not impose an explicit requirement to amend Form ADV or related documents on an other-than-annual basis. Even so, the practical implications of the mid-year effective date are driving proactive updates across the industry, particularly for advisers to 3(c)(1) funds and firms actively onboarding new investors. From a commercial perspective, firms that respond early can use this moment to strengthen investor communications, improve subscription readiness, and reduce execution risk around closings and transfers. Ensuring that documentation, disclosures, and operational processes reflect the correct thresholds as of June 29 is therefore both a compliance priority and a business-readiness exercise.

How Waystone Can Help

Waystone is supporting clients as they assess and implement appropriate updates ahead of June 29, 2026. This includes reviewing subscription and onboarding documentation, evaluating Form ADV disclosures for alignment with current requirements, and advising on where OTA updates may be appropriate based on each firm's structure, investor base, and operating model.

If your team is evaluating whether updates are necessary or have any questions regarding the topics raised in this article, please contact your usual Waystone representative or reach out to our US Compliance Solutions team via the link below.

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