

## >>>FAIRVIEW FLASH REPORT <<<

### SEC Order Raises Requirements for “Qualified Client” Thresholds Due to Inflation

<b>WHAT HAPPENED?</b>	<p>On June 14, 2016, the SEC issued a final order pertaining to registered advisers who charge a performance fee in accordance to Rule 205-3 (the “Rule”) of the Investment Advisers Act of 1940. A “qualified client” is defined by the Rule as a client that meets one of two financial thresholds – based on the client’s AUM with the adviser (immediately after entering into the advisory contract) or the client’s overall net worth.</p> <p>Based on the inflation rate calculated by the Personal Consumption Expenditures Chain-Type Price Index (PCE Index) the SEC raised the net worth requirement from \$2 million to \$2.1 million.</p>
<b>WHAT ARE THE IMPLICATIONS?</b>	<p>The SEC’s Order will require new investment advisory contracts to abide by the increased net worth threshold starting on August 15, 2016. However, two transitional provisions are available under sections (c)(1) and (c)(2) of the Rule, respectively:</p> <ol style="list-style-type: none"><li>1. <b>Clients under an advisory contract who met the previous net worth threshold are exempt from the Order.</b> This exemption includes recipients of transfers of an equity ownership in a private investment company. Such transfers can come in the form of a gift, bequest, or an agreement related to a legal separation or divorce. However, natural persons or companies who become a new party to the contract will be required to meet the increased qualified client threshold.</li><li>2. <b>For current registered investment advisers who entered into advisory contracts before registration, those contracts are also exempt from the Order.</b> However, an investment adviser entering into advisory contracts with (i) new investors in existing funds and (ii) previous investors in new funds will be subject to the \$2.1 net worth threshold.</li></ol> <p>The Order does not alter the current exemptions available to investment advisory contracts with Section 3(c)(7) funds or non-U.S. residents.</p>

**WHAT DOES  
THIS MEAN  
FOR ME?**

In compliance with Rule 205-3, advisers should amend the documentation required for new client contracts. Furthermore, advisers should update private fund subscription documents and compliance policies and procedures to reflect the revised threshold. Please contact Fairview for assistance with making the necessary updates to your firm's compliance program.

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Sources: [SEC Inflation-Based Adjustment to "Qualified Client" Thresholds](#)