

>>>>FAIRVIEW FLASH REPORT: QUALIFIED CLIENT DEFINITION <<<<

WHAT HAPPENED?	<ul style="list-style-type: none">• The SEC announced it is increasing the net worth requirement for investors who pay performance fees by excluding the value of the investor's home from the investor's net worth calculation.
MINIMUM REQUIREMENTS FOR A "QUALIFIED CLIENT"	<ul style="list-style-type: none">• As required by the Dodd-Frank Act, a "Qualified Client" is defined as:<ul style="list-style-type: none">➤ having at least \$1 million of assets under management with the adviser, up from \$750,000; or➤ having a net worth of at least \$2 million, up from \$1.5 million; and• In addition, the SEC has adopted amendments to exclude the value of a client's or investor's primary residence and certain property-related debts from the net worth calculation.<ul style="list-style-type: none">➤ Indebtedness secured by the primary residence up to the estimated fair market value of the residence at the time the investment advisory contract is entered into may not be included as a liability (except that if the amount of such indebtedness at the time of the calculation exceeds the amount outstanding 60 days before entering into the contract.)➤ Indebtedness that is secured by the residence in excess of the estimated fair market value of the residence must be included as a liability.
WHEN IS IT EFFECTIVE?	<ul style="list-style-type: none">• The rule amendments will take effect in mid-May 2012 (90 days after publication in the Federal Register), but investment advisers may rely on the grandfather provisions before then.<ul style="list-style-type: none">➤ The grandfather provision will allow registered investment advisers to continue to charge performance fees if the clients were considered "qualified clients" prior to the rule changes. Also, the provision will allow newly registering investment advisers to continue charging performance fees to those clients they were already charging performance fees.
WHAT LIES AHEAD?	<ul style="list-style-type: none">• Every five years, the Commission will make inflation adjustments to the dollar thresholds used to determine whether an individual or company is a qualified client, as required by the Dodd-Frank Act.

