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## SEC Proposes Updates to “Small Entity” Definitions for Funds and Advisers

By [Ali Perry](#), [Leslie S. Cruz](#) & [Adam D. Kanter](#) on January 16, 2026

On January 7, 2026, the Securities and Exchange Commission (“SEC”) proposed amendments to the rules that define which registered investment companies, investment advisers,<sup>[1]</sup> and business development companies<sup>[2]</sup> qualify as “small entities” for purposes of the Regulatory Flexibility Act (RFA). These amendments would significantly increase the asset-based thresholds last updated in 1998 and introduce a mechanism for periodic inflation adjustments. The proposal would also make corresponding amendments to Form ADV and the rule governing continuing hardship exemptions for investment advisers. The SEC press release, dated January 7, 2026, is available [here](#), and the SEC Fact Sheet is available [here](#).

### **Why the SEC is proposing these changes**

The RFA requires agencies to assess whether rules will have a “significant economic impact on a substantial number of small entities” and to consider alternatives that minimize burdens on such entities. Unless the SEC certifies that the rulemaking will not have such an impact, the SEC is

required to conduct a regulatory flexibility analysis both during the proposal and final stages of adopting a rule.

The SEC's small entity definitions for funds and advisers were set in 1982 and last updated in 1998. Since, industry net assets and assets under management have grown substantially, sharply reducing the number of firms that qualify as "small" under existing thresholds. The SEC stated that updating the thresholds will better tailor RFA analyses to entities that face disproportionate compliance challenges due to size.

For investment companies, the proposal cited growth from approximately \$296.7 billion in net assets across 857 funds in 1982 to \$41.6 trillion across 13,630 funds as of December 2024. As a result, the share of funds deemed "small entities" fell from roughly 62.4% (1982) to 0.6% (2024), underscoring the need to recalibrate the standard. Similarly for investment advisers, the growth in assets under management has significantly reduced the number of advisers that are deemed "small entities," from approximately 17,000, or 75% of the approximately 22,500 total registered investment advisers prior to the 1998 amendments to only 451 or 3% of the 15,909 total registered investment advisers in 2025.

### **What would change for investment companies**

The proposal would amend rule 0-10 under the 1940 Act to increase the net asset threshold from \$50 million to \$10 billion, measured on an aggregated basis across a "family of investment companies" (as reported in Item B.5 of Form N-CEN) rather than the current "group of related investment companies" construct. While the definitions of these terms share common elements, there are key differences between them that could produce different outcomes for funds. The SEC chose \$10 billion to approximate the 80th percentile of fund families by aggregate average total net assets, which would capture about 80% of fund families, accounting for 22.9% of individual funds and 2.13% of total net assets as "small entities."<sup>[3]</sup>

### **What would change for investment advisers**

The proposal would amend rule 0-7 under the Investment Advisers Act of 1940 (the "Advisers Act") to raise the regulatory assets under management (RAUM) threshold from \$25 million to \$1 billion for identifying an investment adviser as a "small entity." The proposal would also make conforming changes to the control relationship test, so an investment adviser is not "small" if it is in a control

relationship with another adviser that has \$1 billion or more in assets under management or with any non-natural person with \$5 million or more in total assets.

According to Form ADV reporting, only 451 of 15,909 SEC-registered investment advisers (about 3%) qualified as “small entities” in 2025 under the current rules.<sup>[4]</sup> The proposed \$1 billion RAUM threshold would increase the proportion of investment advisers captured, with the SEC estimating about 15,850 of 21,650 SEC-registered investment advisers and exempt reporting advisers (roughly 75%) fall below the proposed threshold, though this would still represent under 3% of total industry RAUM due to concentration among the largest advisers.

*Notably, the proposed changes do not impact investment adviser registration thresholds.*

### **Periodic inflation adjustments**

The proposal would allow the SEC, by order approximately every 10 years, to adjust the thresholds for inflation using the Personal Consumption Expenditures Chain-Type Price Index (PCE Index). For funds, the \$10 billion threshold would be multiplied by the PCE ratio and rounded to the nearest \$1 billion; for advisers, the \$1 billion RAUM figure and the AUM component of the control relationship test would be multiplied by the PCE ratio and rounded to the nearest \$100 million.

### **Form ADV and rule amendments**

The proposal would amend Form ADV to revise Item 12 (for small businesses) and Instruction 17 (for continuing hardship exemption). In particular, Instruction 17 would continue to be available to advisers that demonstrate undue hardship, but the cross-reference would now look to whether the adviser is a “small business” or “small organization” under the revised Item 12, which would apply to advisers with less than \$1 billion RAUM. The proposal also would make corresponding amendments to the hardship exemption rule under the Advisers Act. The SEC anticipates minimal economic impact because few advisers are likely to qualify for a hardship exemption given the ubiquity of electronic filing capabilities.

### **Comment period**

The proposing release was published on the SEC’s website and in the Federal Register on January 12, 2026 (available [here](#)), with the comment period open for 60 days until March 13, 2026.

## Potential impact

More investment companies and investment advisers may qualify as “small entities” and thus might benefit from delayed compliance dates, tailored requirements or specific exceptions in SEC rules and the rulemaking process.<sup>[5]</sup>

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**[1]** This term includes, for example, both SEC-registered investment advisers as well as exempt reporting advisers.

**[2]** The release clarifies that, unless otherwise specified, the term “investment companies” or “funds” refers collectively to registered investment companies and business development companies but not entities excluded from the definition of investment company under the Investment Company Act of 1940 (the “1940 Act”), such as private funds.

**[3]** The SEC noted that because these percentage calculations were based on Form N-CEN data, certain investment companies were excluded from the calculations.

**[4]** The SEC noted that because the current threshold was aligned with the minimum threshold for adviser registration, RFA analyses in its rulemakings have not considered the substantial majority of advisers that are subject to registration under the Advisers Act and the full application of the rules thereunder.

**[5]** Under the Small Business Regulatory Enforcement Fairness Act, small entities also have legal recourse adversely affected by final agency rules subject to the RFA.

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