



March 13, 2026

Via Electronic Transmission

Vanessa A. Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-109

Re: “Small Business” and “Small Organization” Definitions for Investment Companies and Investment Advisers for Purposes of the Regulatory Flexibility Act [Rel. Nos. IA-6935; IC-35864; File No. S7-2026-01]

Dear Ms. Countryman:

The Investment Adviser Association (IAA)¹ appreciates the opportunity to comment on the Commission’s proposal to amend the definition of “small entity” for purposes of the Regulatory Flexibility Act (RFA)² as it relates to SEC-registered investment advisers (Proposal).³ We strongly support the Proposal.

The IAA has long called on the Commission to update the “small entity” definition to ensure it more accurately reflects today’s investment adviser industry and enables more

¹ The IAA is the leading organization dedicated to advancing the interests of fiduciary investment advisers. For more than 85 years, the IAA has been advocating for advisers before Congress and U.S. and global regulators, promoting best practices and providing education and resources to empower advisers to effectively serve their clients, the capital markets, and the U.S. economy. Our members range from global asset managers to the medium- and small-sized firms that make up the majority of our industry. Together, the IAA’s member firms manage more than \$57 trillion in assets for a wide variety of individual and institutional clients, including pension plans, trusts, mutual funds, private funds, endowments, foundations, and corporations. For more information, please visit www.investmentadviser.org.

² See 5 U.S.C. §§ 603–604 (requiring agencies to prepare initial and final regulatory flexibility analyses assessing impacts on small entities and considering significant alternatives).

³ “Small Business” and “Small Organization” Definitions for Investment Companies and Investment Advisers for Purposes of the Regulatory Flexibility Act, Investment Advisers Act Rel. No. 6935; Investment Company Act Rel. No. 35864 (Jan. 12, 2026). While our comments in this letter are focused on the proposed amendments to the definition applicable to investment advisers under Rule 0-7 under the Investment Advisers Act of 1940 (Advisers Act), the IAA supports the Commission’s efforts to modernize the small entity definition for investment companies as reflected in the Proposal.

meaningful analysis of the impacts of Commission rulemakings on smaller advisers.⁴ The Proposal represents an important step toward more accurately capturing the structure and resource constraints of today's adviser industry and thereby meeting the RFA's statutory objectives.⁵ The Proposal also aligns closely with concerns the IAA raised in the rulemaking petition we filed in 2023 (**IAA Rulemaking Petition**) regarding the need for more accurate consideration of regulatory impacts on smaller advisers.⁶ We thus urge the Commission to adopt the amendments, with one change. Specifically, we support:

- Increasing the small adviser RAUM Threshold to \$1 billion and incorporating periodic inflation adjustments, as proposed.
- Making the proposed conforming amendment to the Control Relationship Threshold to appropriately align that test with the revised \$1 billion RAUM Threshold.
- Making the proposed conforming amendments to Form ADV that are necessary to implement the revised \$1 billion RAUM Threshold and ensure internal consistency across Commission rules. However, we strongly recommend against the imposition of any additional reporting requirements.

We urge the SEC to eliminate the Total Assets Threshold⁷ as an overlay on the RAUM Threshold. The Total Assets Threshold is not supported by any compelling policy reason, is anchored to outdated metrics, and adds complexity without advancing the goals of the RFA. If the Commission nevertheless decides to retain the Total Assets Threshold, it should adjust the threshold for inflation at the time of adoption, consistent with increasing the RAUM Threshold level.

⁴ See, e.g., [IAA Letter to SEC Regarding Adviser Proposals](#) (June 17, 2023); [IAA Letter to SEC Chair Gary Gensler Regarding Regulation of Investment Advisers](#) (May 17, 2021). See also [IAA presentation to the Commission's Asset Management Advisory Committee](#) (Sept. 27, 2021).

⁵ To be considered a "small entity" for RFA purposes today, an adviser must (1) have regulatory assets under management (**RAUM**) of less than \$25 million (**RAUM Threshold**); (2) have less than \$5 million in total assets on the last day of the most recent fiscal year (**Total Assets Threshold**); *and* (3) not be in a control relationship with another adviser that has \$25 million or more in RAUM *or* \$5 million or more in total assets (**Control Relationship Threshold**). The Proposal would increase the \$25 million RAUM Threshold to \$1 billion, retain the \$5 million Total Assets Threshold, and amend the control relationship element to conform to the proposed RAUM increase.

⁶ See [Petition for Rulemaking to Amend the Definition of "Small Entity" in Rule 0-7 under the Investment Advisers Act of 1940 for Purposes of the Regulatory Flexibility Act](#) (Sept. 14, 2023). The IAA Rulemaking Petition includes detailed background on the RFA, the current definition of "small entity," and the investment adviser landscape and we incorporate that discussion by reference.

⁷ The RAUM and Total Assets Thresholds measure different concepts. As reported on Form ADV, RAUM reflects the value of client assets for which an adviser provides continuous and regular supervisory or management services. By contrast, the total assets test refers to assets held on the adviser's own balance sheet, such as cash, receivables, or ownership interests in affiliated entities.

I. Updating the Small Adviser Definition Is Necessary to Realistically Reflect the Adviser Industry and Right-Size Regulations

The investment adviser industry is a significant and growing contributor to our economy, steadily adding firms, jobs, and new investors.⁸ And small businesses are the backbone of this industry. Specifically:

- Approximately 75% of advisers manage less than \$1 billion in assets⁹ and over 90% have fewer than 100 non-clerical workers.
- Smaller advisers account for a high proportion of employees relative to their assets managed.
- Advisers focused on individuals as clients are generally small, with an average of just 8 employees, 2 offices, and \$393 million in assets under management.
- Advisers with less than \$1 billion in RAUM account for almost all of the new SEC registrations, with new registrants comprising over 10% of firms in that size range.

The IAA has long urged the Commission to adhere to the core principles of the RFA by conducting realistic, data-driven analyses of the impacts of its regulations on smaller advisers. Smaller firms often face disproportionate burdens from one-size-fits-all regulatory requirements—both individually and cumulatively across rulemakings.

Consistent with the principles and objectives of the RFA, the IAA has encouraged the Commission to tailor its rules where appropriate, including by:

- Preserving flexible, risk-based and principles-based approaches.
- Excluding smaller advisers from specific requirements when warranted.
- Scaling obligations to reflect firm size and operational complexity.
- Tiering or staggering compliance dates to account for resource constraints.

Effective regulatory tailoring depends on a sound and data-driven analytical foundation. The RFA requires the Commission to conduct a preliminary and final analysis assessing the

⁸ The industry added 25,984 jobs (an increase of 2.6%) to reach total non-clerical employment of 1,032,455. *See* the IAA's [2025 Investment Adviser Industry Snapshot \(IAA Snapshot\)](#). Unless otherwise noted, the data cited in this comment letter is from the IAA Snapshot, which analyzes Form ADV information.

⁹ *See* Proposal at 1117.

economic impacts of its rules on small entities and consider alternatives that would minimize burdens on those entities. Without an accurate and economically realistic definition of what is a “small” adviser, the Commission cannot effectively perform the baseline analysis necessary to inform such tailoring, making it difficult to right-size regulation appropriately.

As the Commission acknowledges, the current definition of “small entity” significantly limits the agency’s ability to fulfill its statutory obligations under the RFA. Under existing Rule 0-7, a small adviser is defined, in part, as an adviser with less than \$25 million in RAUM.¹⁰ Yet, with limited exceptions, advisers are prohibited from registering with the Commission unless they have at least \$100 million in RAUM.¹¹ As a result, the current definition captures only a negligible portion (approximately 3%) of SEC-registered advisers, rendering the Commission’s RFA analyses largely unrepresentative of the firms subject to its rules. This disconnect undermines the practical utility of the Commission’s RFA analyses and is inconsistent with the statute’s purpose.

For this reason, the IAA has repeatedly called on the Commission to adopt a more realistic and economically meaningful standard for identifying “small” advisers under the RFA. Most recently, we filed the IAA Rulemaking Petition to urge the Commission to amend the small adviser definition to better reflect modern industry structure and enable more meaningful regulatory flexibility analyses. We are pleased that the Proposal is consistent with the concerns and objectives outlined in our petition and represents a meaningful step toward improving the accuracy and effectiveness of its RFA analyses.

II. IAA Support for the Proposal

The IAA strongly supports the Commission’s proposal to increase the small adviser threshold to \$1 billion in RAUM, make conforming amendments, and incorporate periodic inflation adjustments. According to the Proposal, raising the threshold to \$1 billion would capture approximately 75% of SEC-registered advisers. This more accurately reflects the structure of the adviser industry and is consistent with the reality we outline in the IAA Rulemaking Petition that a substantial majority of advisers are small firms. It is also consistent with the Commission’s estimate of the number of firms that would have been considered small when it originally adopted an RAUM threshold in 1982.¹²

Updating the definition will enable the Commission to more accurately assess the full range of regulatory impacts on small advisers, including compliance, operational, technology, legal, and other business costs. Many rules also affect core business functions as well as compliance programs. A modernized definition would allow the Commission to better evaluate

¹⁰ As noted above in n. 5, the adviser must also have less than \$5 million in total assets and not be part of a control group with another adviser that falls above the \$25 million RAUM or \$5 million Total Assets Thresholds.

¹¹ See Advisers Act § 203A; Proposal at Section I (discussing interaction between current \$25 million small entity threshold and the \$100 million federal registration threshold).

¹² See IAA Rulemaking Petition, n. 25.

these effects, consider appropriate alternatives, and tailor regulations where warranted, while also providing the public with a clearer opportunity to comment on regulatory analyses affecting small advisers. Importantly, updating the definition would not reduce investor protections or eliminate regulatory requirements.¹³ Rather, it would strengthen the rulemaking process by ensuring that RFA analyses reflect the economic realities and operational scale of the firms subject to Commission regulation.

For these reasons, the IAA strongly urges the Commission to adopt the amendments to Rule 0-7, as proposed, subject to our comments on the proposed Total Assets Threshold. We believe the proposed \$1 billion RAUM Threshold appropriately balances capturing a meaningful population of smaller advisers while avoiding inclusion of firms whose scale and resources do not align with the purposes of the small entity definition.

Below, we respond to the Commission's specific requests for comment.

III. Responses to Requests for Comments

A. Proposed RAUM Threshold and Consideration of Alternatives

Increase RAUM Threshold to \$1 billion

The Proposal would amend Rule 0-7 to raise the RAUM Threshold from \$25 million to \$1 billion and establish a mechanism to adjust that threshold for inflation every 10 years. Under the current definition, approximately 3% of SEC-registered advisers qualify as "small entities." By contrast, the Commission estimates that approximately 15,850 of the 21,650 registered and exempt reporting investment advisers – roughly 75% – have RAUM below the proposed \$1 billion threshold and would therefore be deemed small entities for RFA purposes. This significant increase in the threshold would meaningfully expand the population of advisers considered in the Commission's regulatory flexibility analyses.

The IAA appreciates the Commission's thoughtful and well-reasoned analysis supporting the proposed \$1 billion RAUM Threshold. The Proposal carefully considers both the significant concentration of assets among the largest advisers and the RFA's requirement that a small entity be one that is not "dominant in its field."¹⁴ Although the Proposal would classify a substantial proportion of advisers as small entities, the Commission explains why this result is appropriate given the comparatively modest amount of assets managed by these firms relative to the largest

¹³ We note that the RFA "does not seek preferential treatment for small entities, nor does it require agencies to adopt regulations that impose the least burden on them, or mandate exemptions for them. Rather, it requires agencies to examine public policy issues using an analytical process that identifies barriers to small business competitiveness and seeks a level playing field for small entities, not an unfair advantage." See [A Guide for Government Agencies How to Comply with the Regulatory Flexibility Act](#), published by the Small Business Administration (SBA) Office of Advocacy (Aug. 2017) at 1.

¹⁴ See Proposal at Section II.A.

advisers. We commend the Commission for its careful consideration of these statutory and industry factors.

Employee-Based Size Standard

The IAA and other commenters previously recommended that employee count would serve as a more meaningful indicator of firm size than an RAUM-based threshold alone, and we continue to believe that approach has significant merit for the reasons discussed in the IAA Rulemaking Petition.¹⁵ At the same time, we believe the Commission’s proposed approach reasonably advances the central objective underlying that recommendation – aligning the definition of “small” with industry realities – in a clear, administrable, and effective manner. We appreciate the Commission’s careful consideration of our recommendation and its explanation for maintaining an RAUM-based standard, including its view that RAUM is a readily available metric that aligns with existing regulatory frameworks and reflects advisers’ scale and growth.

Revenue-Based Size Standard

With respect to the Commission’s request for comments on whether to adopt a revenue-based size standard, the IAA does not believe such an approach would be appropriate.¹⁶ Revenue is not a particularly meaningful measure of adviser size for RFA purposes and would introduce significant practical challenges. Adviser firms have diverse fee structures (*e.g.*, asset-based fees, fixed fees, performance fees, subscription fees, and blended arrangements) that vary by client type, service model, and business mix, among other factors. As a result, annual receipts may not correlate with firm scale, operational complexity, or available compliance resources. Revenue recognition practices may also differ among firms depending on their accounting methods, further reducing comparability and administrative simplicity.

In addition, revenue data are not currently reported on Form ADV, and requiring advisers to calculate and report annual receipts would impose new compliance burdens, including system modifications, accounting determinations, and ongoing monitoring. By contrast, RAUM is already reported, consistently defined under the Advisers Act, readily available to the Commission, and more closely aligned than revenue with how advisory businesses scale in

¹⁵ In response to the Commission’s questions regarding data availability and implementation challenges associated with an employee-based standard, including treatment of affiliates and outsourcing, we do not believe additional reporting would be necessary if the Commission were to use an employee-based standard. The employee count already reported on Form ADV provides a sufficiently clear and administrable measure of internal staffing resources for RFA purposes. A straightforward approach focusing on an adviser’s own reported personnel, without attempting to impute affiliate or service provider employees, would avoid unnecessary complexity while still meaningfully differentiating firms based on operational scale. Employee headcount therefore could serve as a useful alternative or complement to an RAUM-based standard without expanding reporting obligations.

¹⁶ In response to the Commission’s request for comment on whether it should rely on the default SBA size standards, the IAA believes that the Commission’s use of an RAUM-based metric more appropriately reflects the unique structure of the adviser industry and should not be replaced with the SBA’s revenue standards.

practice. For these reasons, a revenue-based test would be both less administrable and less useful than the proposed RAUM-based standard.

Accordingly, the IAA recommends that the Commission adopt the \$1 billion RAUM Threshold, as proposed.

B. Total Assets Threshold

The Proposal maintains the current definition's requirement that each adviser under the RAUM Threshold also have less than \$5 million in total assets to "count" as a small entity. The IAA continues to believe that assets on an adviser's balance sheet are not a particularly useful or reliable measure of adviser size for purposes of the RFA and we strongly recommend that the Commission eliminate this element of the small entity definition. As we noted in the IAA Rulemaking Petition, the objective of this definition is to identify firms whose scale and resources may limit their ability to absorb regulatory costs. Total assets reflected on an adviser's balance sheet do not necessarily correlate with operational complexity, staffing levels, compliance capacity, or the scope of its advisory business. Advisers may hold assets unrelated to their core advisory operations, including assets tied to non-advisory activities, temporary capital arrangements, or organizational structure, that do not meaningfully reflect firm size for RFA purposes.

We also note that the Proposal does not estimate how many advisers would be excluded from being considered "small" if the Commission retains the \$5 million Total Assets Threshold. Without such analysis, it is unclear whether maintaining this threshold would be consistent with the Commission's objective of aligning the small entity definition with current industry realities, including the fact that most advisers are smaller firms.

In addition, the Commission receives limited information regarding advisers' total assets, and we do not believe the Proposal warrants amendments to Form ADV to require broader balance sheet reporting. Expanding such reporting would impose additional operational and compliance burdens and introduce accounting complexities without materially improving the Commission's ability to conduct meaningful RFA analyses. Given that the objective of the Proposal is to modernize the RAUM-based standard to more accurately reflect the investment adviser industry, it would be appropriate to avoid expanding reporting or retaining a secondary metric that add complexity without materially advancing that objective.

Accordingly, we recommend that the Total Assets Threshold be eliminated, as it does not appear to provide meaningful differentiation beyond the proposed RAUM-based standard. In the alternative, if the Commission determines to retain this threshold, the current \$5 million threshold should be updated for inflation at the time of adoption. The Commission's proposed methodology indicates that the inflation-adjusted amount would be approximately \$10 million.¹⁷

¹⁷ To illustrate how the proposed inflation adjustment methodology would operate, the Proposal notes that applying it to the current \$5 million threshold would result in an amount of approximately \$10 million. *See* Proposal at 1120.

Updating the Total Assets Threshold now would promote internal consistency and avoid a situation in which one element of the definition reflects current economic conditions while another remains anchored to outdated metrics.

C. Control Relationship Threshold

We support the proposed conforming amendment to the Control Relationship Threshold to appropriately align that test with the revised \$1 billion RAUM Threshold. By conforming the control analysis to the updated size threshold, the Proposal ensures that advisers are not excluded from small entity status solely due to control relationships with firms that themselves fall below the new RAUM Threshold. This approach maintains internal consistency within the rule and supports the Proposal's overall objective of capturing a meaningful and realistic population of smaller advisers for RFA purposes.

Accordingly, the IAA recommends that the Commission amend Rule 0-7 to increase the Control Relationship Threshold from \$25 million to \$1 billion, along with the proposed inflation adjustment mechanism, as proposed.

D. Inflation Adjustment Mechanism

The IAA supports the proposed periodic inflation adjustment mechanism for both the RAUM and Total Assets Thresholds. Static thresholds can quickly become outdated as industry assets grow, undermining the continued effectiveness of the definition. Providing for regular adjustments will help ensure that the small entity definition remains relevant over time and continues to reflect industry realities. The proposed 10-year interval strikes a reasonable balance between stability and responsiveness to market growth.

E. Amendments to Form ADV

The IAA supports conforming amendments to Form ADV that are necessary to implement the revised \$1 billion RAUM Threshold and to ensure internal consistency across Commission rules. However, we do not believe that adoption of the revised small entity definition warrants the imposition of additional reporting requirements.¹⁸

The purpose of the Proposal is to improve the Commission's regulatory flexibility analyses, not to expand substantive disclosure obligations. Form ADV already collects comprehensive and standardized information regarding RAUM, employees, clients, and other operational characteristics sufficient for the Commission to conduct meaningful RFA analyses.

¹⁸ We recognize that expanding the definition of "small entity" will result in more advisers indicating small entity status in Item 12 of Form ADV. Affected advisers would need to assess their status under the revised definition, update Form ADV as appropriate, and monitor their status over time. This underscores the importance of limiting Form ADV amendments to those necessary to implement the revised definition.

Requiring advisers to report additional metrics, such as expanded total assets or revenue information or more detailed information on an adviser's employees, would introduce new compliance costs, potential definitional inconsistencies, and system modifications, without materially improving the Commission's ability to evaluate regulatory impacts on smaller firms. Even incremental additions to Form ADV can require operational changes, compliance review, and ongoing monitoring. These additional burdens would fall disproportionately on the firms the Proposal is designed to address.

Although employee count and other operational metrics may remain useful considerations in future rulemakings as part of the Commission's broader efforts to tailor and appropriately size regulatory requirements, incorporating new reporting requirements into the Proposal is neither necessary nor consistent with the objectives of the RFA.

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Securities and Exchange Commission
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The IAA commends the Commission for proposing long-overdue updates to the small entity definition applicable to advisers. We believe the Proposal represents a thoughtful and meaningful step toward ensuring that the Commission's regulatory analyses better reflect the structure and realities of today's adviser industry. We respectfully urge the Commission to adopt the Proposal with the change we recommend and to continue engaging with industry stakeholders to ensure that future regulations are right sized to reflect differences in firm size, resources, and business models appropriately.

The IAA appreciates the opportunity to comment and would welcome the opportunity to provide additional data, analysis, or other assistance as the Commission moves toward finalizing the rule.

Respectfully,

/s/ Gail C. Bernstein

Gail C. Bernstein
General Counsel and Head of Public Policy

/s/ Sanjay Lamba

Sanjay Lamba
Associate General Counsel

cc: The Honorable Paul S. Atkins, Chairman
The Honorable Hester M. Peirce, Commissioner
The Honorable Mark T. Uyeda, Commissioner
Brian Daly, Director, Division of Investment Management