

# Understanding Private Fund Marketing Exemptions:

## Reg D, Rule 506(b) & Reg D, Rule 506(c)

*A Primer for New and  
Emerging Private Fund Managers*

# Introduction

Raising capital effectively and compliantly is critical for private fund managers seeking to grow their assets under management. The SEC's Regulation D provides two primary marketing exemptions for private fund offerings – Rule 506(b) and Rule 506(c) – each presenting distinct advantages and challenges. This guide is designed to help fund managers understand these exemptions, providing insights that enable them to select the optimal marketing exemption for their fund<sup>1</sup>.

## Rule 506(b):

## Overview, Advantages, and Disadvantages

### Overview

Rule 506(b) under Regulation D permits private funds to raise unlimited capital from accredited investors and up to 35 sophisticated but non-accredited investors, provided there is no general solicitation or advertising.

### Advantages

- » **No Verification Requirement:**  
Fund managers can rely on investor self-certification for accredited status.
- » **Established Method:**  
Widely accepted and historically the most commonly used exemption for private funds.
- » **Simplicity in Compliance:**  
Relatively straightforward documentation and operational processes.

### Disadvantages

- » **Limited Marketing:**  
Prohibition against general solicitation significantly limits marketing opportunities. Public communications and websites are prohibited from mentioning the fund or its performance.

- » **Restricted Outreach:**

Can only engage investors with pre-existing, substantive relationships.

- » **Limited Scalability:**

Difficult to quickly expand investor base due to restricted outreach methods.

***Rule 506(b) is ideal for managers with established investor networks but can severely restrict emerging managers seeking rapid AUM growth through marketing.***

## Rule 506(c):

## Overview, Advantages, and Disadvantages

### Overview

Rule 506(c) permits private funds to broadly advertise and market their offerings, provided that all investors are accredited and that the fund manager undertakes “reasonable steps” to verify each investor’s accredited status.

### Advantages

- » **General Solicitation Allowed:**  
Enables proactive marketing, including advertising through social media, websites, podcasts, blogs, and other public forums.
- » **Rapid AUM Growth:**  
Greater potential for rapid capital raising through expanded outreach and visibility.
- » **Transparency and Visibility:**  
Offers enhanced market presence and builds brand credibility through public engagement.

<sup>1</sup>Also, note that unregistered funds relying on Section 3(c)(1) are limited to 100 investors total regardless of the chosen marketing exemption.

## Disadvantages

### » Verification Requirement:

Fund managers must actively verify investor accredited status through prescribed methods, which include traditional methods and the use of third-party verifiers.

### » Compliance Complexity:

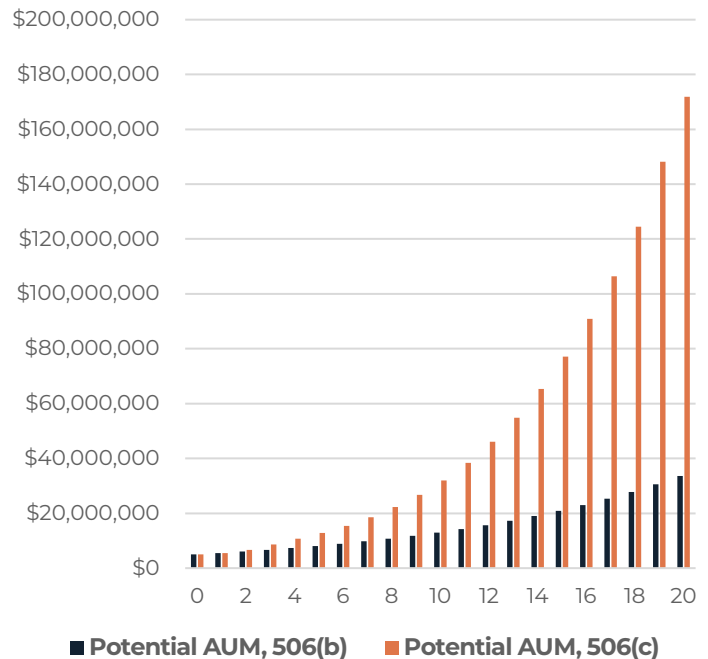
Moderately higher initial setup complexity due to additional verification processes.

### » Potential Higher Costs:

Possible increased compliance costs from using third-party verification services.

*Despite additional verification steps, Rule 506(c) dramatically expands your potential investor pool and can accelerate your fund's growth trajectory via marketing initiatives.*

**Quarterly Growth of \$5M in AUM**



*Illustrates potential AUM growth only\**

## Detailed Comparison:

## Compliance and Operational Differences

	Rule 506(b)	Rule 506(c)
Marketing	No general solicitation; limited outreach	General solicitation permitted
Accredited Investor Verification	Investor self-certifies accredited status	Fund manager must take reasonable steps to verify accredited status
Investor Limits	Up to 35 non-accredited sophisticated investors	Accredited investors only
Operational Complexity	Lower complexity	Slightly higher initial setup complexity
Compliance Cost	Moderately lower	Moderately higher, mitigated by third-party services

\*Assuming adequate investment in marketing

## Marketing and Investor Relations Implications

Leveraging Rule 506(c) can substantially accelerate AUM growth, especially for new and emerging managers who benefit significantly from enhanced visibility and outreach capabilities. The ability to publicly advertise allows funds to:



Establish a robust online and social media presence.



Engage potential investors proactively rather than relying solely on personal networks.



Utilize targeted content marketing to showcase thought leadership and build credibility.



Appear on well-established investor-focused podcasts to expand investor network and general brand awareness.

***Rule 506(c) allows you to strategically position your fund to attract investor attention and rapidly scale AUM through marketing-driven initiatives.***

### Compliance with 506(c):

## Verification of Accredited Status

Compliance with Rule 506(c) requires issuers to implement reasonable steps to verify accredited investor status. Accepted methods include:

### Traditional Methods

- » Review of tax returns, financial statements, bank, or brokerage statements.
- » Written confirmation from financial professionals, such as registered investment advisors (RIAs), attorneys, FINRA Broker/Dealers, or CPAs.

### Third-Party Verification Services

Several reputable third-party services streamline verification processes, making compliance manageable and cost-effective. Examples include:

Provider	Cost per Verification	Website
VerifyInvestor.com	~\$59	verifyinvestor.com
InvestReady	~\$49	investready.com
EarlyIQ	Varies	earlyiq.com

***Utilizing third-party services significantly reduces operational burdens and ensures compliance with SEC requirements under Rule 506(c).***

## SEC no-action letter (March 2025)

Under the SEC's March 2025 no-action letter, issuers relying on high minimum investments (\$200,000 for individuals and \$1,000,000 for entities) and proper investor representations will most likely meet the Rule 506(c) verification standard<sup>2</sup>.

*The SEC's March 2025 no-action letter significantly reduces compliance risks and operating costs associated with marketing under Rule 506(c).*

## Summary:

# Comparative Bullet Points

Criteria	Rule 506(b)	Rule 506(c)
Marketing Strategy	Restricted to pre-existing, substantive relationships	Can be broadly marketed
Investor Verification	Self-certification by investor	Active verification by fund manager or third-party verifier
Compliance Burden	Moderately lower	Moderately higher, simplified by third-party services
Documentation Needs	Standard offering documents	Enhanced verification records
Investor Preferences	Investors familiar with issuer	Broad range of new investors

## Conclusion

Choosing the right exemption under Regulation D significantly impacts a fund's growth potential and operational efficiency. Rule 506(c), particularly when leveraged effectively, offers a powerful pathway to rapidly scale AUM through robust marketing initiatives. With modern verification tools and clear regulatory guidance, compliance has become increasingly manageable. Fund managers who strategically embrace Rule 506(c) and invest in fund marketing position themselves advantageously for future growth.

<sup>2</sup><https://www.sec.gov/files/corpfin-no-action/latham-watkins-031225-506c.pdf>

## Richey May

Richey May specializes in audit, tax, and consulting services for alternative investment funds. Richey May's fund knowledge spans hedge funds, private equity, venture funds, real estate funds, commodity pool operations, crypto funds, private money lenders, and management company entities. With deep experience with diverse fund structures, including fund of funds, master-feeder, mini-master, domestic and foreign funds, PFIC, '40 Act, REIT, Delaware Series Trust, and special purpose vehicles, Richey May ensures tailored, actionable insights for any strategy or size, supporting sustained client success in a competitive market.

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## Investment Law Group

The Investment Law Group provides sophisticated legal counsel to private fund managers, family offices, and investment advisers. Known for its deep expertise in fund formation, regulatory compliance, and strategic structuring, ILG helps managers navigate the complex landscape of securities law while providing practical and cost-effective guidance to support capital raising goals.



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## Exponential AUM

Exponential AUM specializes in helping new and emerging alternative fund managers grow AUM through Authority Elevation marketing, which entails high-impact podcast appearances, LinkedIn videos and thought leadership posts, blogging, long and short form content for social media, and a managed marketing CRM solution. The company also provides branding, investor decks & tear sheets, and 506(b) and 506(c) compliant websites.



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