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California’s New Diversity Reporting Law Imposes Obligations on a Wide Array of Asset Management Firms

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Beginning in 2026, a new law — the Fair Investment Practices by Venture Capital Companies Act (“FIPVCC”) — imposes new obligations on a wide array of asset management firms that operate in California, make investments in California, and/or solicit investment and/or receive revenue from California — regardless of whether they are based in or outside of California. Specifically, the new statute requires covered entities to register with the California Department of Financial Protection and Innovation (“DFPI”) by March 1, 2026, and, beginning in April 2026, annually report aggregated demographic information about the founding teams of the companies in which they have invested during the preceding year.

Although the statute’s title may suggest it applies solely to traditional venture capital firms, its broad language could encompass a wide array of firms and funds that might not otherwise be regarded as venture capital (“VC”) firms. Accordingly, asset management firms and funds should confirm whether they may be covered and, if so, take actions to comply with the new law’s requirements — as there are potentially significant penalties for failing to do so.

Reporting Obligations Extend Beyond Traditional VC Firms

The FIPVCC defines a “venture capital company” (*i.e.*, a covered entity) by reference to Title 10, section 260.204.9 of the California Code of Regulations. Cal. Corp. Code § 27500(g). Those regulations, in turn, define a venture capital company as an entity that satisfies one or more of the following requirements:

- on at least one occasion during the annual period commencing with the date of its initial capitalization and on at least one occasion during each annual period thereafter, at least fifty percent (50%) of its assets (other than short-term investments pending long-term commitment or distribution to investors), valued at cost, are venture capital investments or derivative investments, as defined in subsections (a)(5) and (a)(6) of the regulations;

- the entity is a “venture capital fund” as defined in rule 203(l)-1 adopted by the U.S. Securities and Exchange Commission under the Investment Advisers Act of 1940, as amended; or
- the entity is a “venture capital operating company” as defined in rule 2510.3-101(d) adopted by the U.S. Department of Labor under ERISA.

With respect to the first bullet above, the regulations define “venture capital investments” as “an acquisition of securities in an operating company as to which the investment adviser, the entity advised by the investment adviser, or an affiliated person of either has or obtains management rights.” Cal. Code Regs., tit. 10, § 260.204.9(a)(5). The regulations’ reference to “management rights” refers to the “right, obtained contractually or through ownership of securities … to substantially participate in, to substantially influence the conduct of, or to provide (or to offer to provide) significant guidance and counsel concerning, the management, operations or business objectives of the operating company in which the venture capital investment is made.” *Id.* at § 260.204.9(a)(7).

Accordingly, a fund, regardless of its stated strategy, that acquires securities of an operating company where the adviser has management rights and/or participates in the management of the business of the operating company (including through a board or board observer seat) likely would be covered by the definition and, thus, potentially subject to the reporting requirements.

Even Firms Based Outside of California May Be Subject to Reporting Requirements

If a firm falls within the broad definition of a “venture capital company,” it will be subject to the new statute’s requirements if it: (a) primarily engages in the business of investing in, or providing financing to, startup, early-stage or emerging growth companies; and (b) (i) is headquartered in California; (ii) has a significant presence or operational office in California; (iii) makes “venture capital investments” in businesses located in, or that have significant operations in, California; or (iv) solicits or receives investments from a person who is a resident of California. Cal. Corp. Code § 27500(b).

Notably, the California nexus provisions ((b)(i)-(iv) above) are broad and may capture firms that do not regard themselves as doing business in California. For example, a firm headquartered in Boston still will be covered if it invests in any businesses that are based in California or have significant operations in the State. Even firms that do not invest in companies that operate in California will be covered if they solicit money from California investors.

Initial Registration Requirements (Due March 1, 2026)

Any firm that is covered by the FIPVCC must register with the DFPI **by March 1, 2026**, by submitting the following information to the DFPI through the agency's website:

- The VC firm's name;
- The VC firm's business address, telephone number, website and a designated email address; and
- A designated point of contact (by name, title and email address).

See Cal. Corp. Code § 27501(a)(1). After the initial registration, firms have an ongoing obligation to keep the DFPI updated on changes to any of the above information. *See id.* at § 27501(a)(2).

Although the agency has yet to open a portal on its website, it is believed that there will be a way for covered firms to submit the registration information electronically through the DFPI's website: https://dfpi.ca.gov/.

Annual Demographic Reporting Requirements (Due April 1, 2026)

Firms that are subject to the new law must submit their first demographic report **by April 1, 2026**, and annually thereafter, covering investments made during the prior calendar year. The FIPVCC requires covered firms to submit a detailed annual report containing aggregated demographic data and investment metrics relating to their VC activity during the prior calendar year.

First, covered entities must report aggregated demographic information for the founding teams of all businesses in which the firm made a VC investment during the prior calendar year. This information must be based on data obtained through a survey and includes:

1. Gender identity of each founding team member, including nonbinary and gender-fluid identities;

2. Race of each founding team member;
3. Ethnicity of each founding team member;
4. Disability status of each founding team member;
5. Whether any founding team member identifies as LGBTQ+;
6. Whether any founding team member is a veteran or disabled veteran;
7. Whether any founding team member is a resident of California; and
8. Whether any founding team member declined to provide any of the above information (A-G above).

Cal. Corp. Code § 27501(b)(1).

Second, the report must include the number of VC investments to businesses primarily founded by diverse founding team members as a percentage of the total number of VC investments the firm made. This information must be reported in the aggregate and broken down by the demographic categories listed (A-G) above. *See* Cal. Corp. Code § 27501(b)(2).

Third, firms must report the total amount of VC investments made to businesses primarily founded by diverse founding teams as a percentage of the total amount of VC investments made. As with the investment counts above, this information must be in the aggregate and broken down by the demographic categories (A-G) above. *See id.* at § 27501(b)(3).

Fourth, the report must include the total amount of money a VC firm invested in each business during the prior calendar year, regardless of the demographics of the founding team. *Id.* at § 27501(b)(4). In addition, covered entities must report the principal place of business of each company in which they made a VC investment. *Id.* at § 27501(b)(5).

Notably, the reporting requirements above apply only to businesses that have: (a) executed an investment agreement with the VC firm; and (b) received a first transfer of funds from the VC firm. *See id.* at § 27501(c)(4). Thus, firms need not report on any potential future investments that have yet to be formalized.

However, the reporting requirements are not limited to businesses that are based or operate in California. Thus, regardless of the location or activities of the underlying businesses, a VC firm may have reporting obligations if the firm itself satisfies the statutory California nexus requirements for coverage.

Required Survey, Disclosures, and Recordkeeping

Importantly, the FIPVCC requires that covered firms collect the information needed to report by conducting a demographic survey (using a template created by the DFPI),[1] which must be provided directly by the VC firm to each founding team member of each business in which the VC firm has invested.

Notably, the FIPVCC does not permit firms to mandate responses or condition investment terms on participation. In fact, firms are prohibited from encouraging, incentivizing or attempting to influence any founding team member to participate in the survey. *See* Cal. Corp. Code § 27501(c).

Prior to, or concurrently with, providing the survey to founders, the VC firm must give each founding team member a written disclosure stating that participation is voluntary, no adverse action will be taken if a founding team member declines to participate, and the demographic information will be reported to the DFPI only in aggregated form for each demographic category. *See id.* at § 27501(c)(2).

In addition to the other obligations it imposes, the FIPVCC requires that VC firms maintain records of the information and activities required under the statute for at least five years. The DFPI has a right to examine those records and may make certain inquiries to covered VC firms. *See id.* at § 27502(c).

Potentially Significant Consequences for Noncompliance

The new law contains fairly robust enforcement provisions. Perhaps most significantly, it broadly authorizes the DFPI to bring a civil action to enforce its requirements. A VC firm may be ordered to comply with the statute; in addition, the DFPI may recover civil penalties, along with costs and reasonable attorney’s fees. In any civil or administrative action brought by the DFPI, the agency may recover a penalty of up to $5,000 per day during which a violation occurs or continues, and it may seek heightened penalties for any reckless or knowing violations. *See* Cal. Corp. Code § 27504.

Next Steps for Potentially Covered Entities

Asset managers — regardless of their specific strategy — should examine whether they may fall within the definition of a “venture capital company” for purposes of the FIPVCC and, if so, whether they have a reporting obligation. If so, covered firms should promptly review their investments in the preceding year to ascertain which businesses’ founders should be provided with the required survey.

In the event that firms have questions or need assistance regarding their potential reporting and other obligations under the new law, they should consult with outside counsel. Our team is available to answer questions and assist with the reporting requirements.

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[1] As of January 20, 2026, the DFPI has yet to publish the required survey, though it has indicated that it will do so on the Venture Capital Companies section of its website, https://dfpi.ca.gov/.

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