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If it’s Tuesday, There’s a New California Regulation for That – This Time Against Venture Capital Firms!

California Employment Law Update on **January 22, 2026**

A new California law imposes significant new registration and reporting requirements on a broad range of asset management firms. Although the statute is styled as a “venture capital” law, its expansive definitions and California nexus provisions mean that many firms that do not traditionally view themselves as venture capital companies may nevertheless be subject to its requirements. Meet the new “Fair Investment Practices by Venture Capital Companies Act (FIPVCC).”

California’s New Diversity Reporting Law Imposes Obligations on a Wide Array of Asset Management Firms – Insights – Proskauer Rose LLP

Covered firms must register with the California Department of Financial Protection and Innovation (“DFPI”) by March 1, 2026, and, beginning April 1, 2026, must annually report aggregated demographic information concerning the founding teams of companies in which they invested during the prior calendar year. Failure to comply may result in substantial penalties.

Coverage Extends Beyond Traditional VC Firms

The FIPVCC defines a “venture capital company” broadly by reference to existing California regulations. An entity may qualify if, among other things, it holds “venture capital investments”—defined as investments in operating companies where the investor or its affiliates obtain management rights, including board seats, observer rights, or other contractual rights to influence management or provide strategic guidance. As a result, a wide array of firms and funds may fall within the scope of the statute if they regularly obtain governance or advisory rights, regardless of how they characterize their investment strategy.

California Nexus Is Broad

Even firms based entirely outside California may be covered. A qualifying venture capital company is subject to the law if it is headquartered in California, maintains a significant presence in the state, invests in companies located in or with significant operations in California, or solicits or receives capital from a California resident. These provisions may capture firms that do not consider themselves to be “doing business” in California—for example, a non-California fund with a single California portfolio company or investor.

Registration and Annual Reporting Requirements

Covered firms must register with the DFPI by March 1, 2026, providing basic firm information and a designated point of contact, and they must keep that information current thereafter. While the DFPI has not yet announced a standalone registration portal, it has now posted the required Venture Capital Demographic Data Survey and Venture Capital Demographic Data Report template, signaling that the agency’s compliance infrastructure is actively coming online.

The first annual demographic report is due April 1, 2026, covering venture capital investments made during calendar year 2025. The report must be submitted using the DFPI’s standardized reporting form and will be publicly available on the DFPI’s website once filed.

To generate the required data, covered firms must provide the DFPI-prescribed survey directly to each founding team member of every business in which the firm made a covered investment during the prior calendar year. The survey collects self-identified demographic information across required categories, including gender identity, race and ethnicity, disability status, LGBTQ+ identification, veteran status, and California residency. Participation is strictly voluntary, and founders may decline to respond to some or all questions.

Using the survey responses received, firms must report aggregated demographic results for all founding teams, as well as calculate and disclose: (i) the number of investments in businesses primarily founded by diverse founding teams as a percentage of total investments; (ii) the total amount invested in such businesses as a percentage of total invested capital; and (iii) the total amount invested in each portfolio company during the year, along with each company’s principal place of business. The DFPI’s reporting template provides detailed instructions and formulas for these calculations.

As clarified in the DFPI materials, reporting obligations apply only to investments for which an investment agreement has been executed and an initial transfer of funds has occurred. However, reporting is not limited to California-based portfolio companies if the firm itself satisfies the statute's California nexus requirements.

Enforcement and Next Steps

The FIPVCC grants the DFPI broad enforcement authority, including the ability to seek civil penalties of up to $5,000 *per day* for ongoing violations, with enhanced penalties for knowing or reckless noncompliance. Attorney's fees and costs are also recoverable under the statute, a structure likely to encourage a feeding frenzy within California's plaintiff-friendly litigation ecosystem.

Asset managers should promptly assess whether they fall within the statute's broad definition of a venture capital company and whether they satisfy any California nexus criteria. Covered firms should begin preparing for registration and implementing processes to comply with the new survey and reporting requirements.

Related Professionals

- **Anthony J. Oncidi**
  Partner
- **Cooper Halpern**
  Associate
- **Philippe A. Lebel**
  Partner