

California Fair Investment Practices by Venture Capital Companies Law – Key Requirements & How to Prepare

In October 2023, California enacted what would become known as the [California Fair Investment Practices by Venture Capital Companies Law](#) (FIPVCC) to require that each covered entity (1) register with the California Department of Financial Protection & Innovation (DFPI) (with registration available by March 1, 2026); and (2) by April 1, 2026, and annually thereafter, submit to the DFPI the covered entity's updated contact information, anonymized and aggregated demographic information collected voluntarily via the [DFPI-developed survey](#) from and about the founding members of businesses that the covered entity invested in during the prior calendar year, and additional contextual investment and survey information.

Key Takeaways

- California has enacted a new transparency law requiring certain companies in the venture capital space with a California nexus, including investment management firms, to collect and report aggregated, anonymized demographic information about the founding teams of the portfolio companies they invested in the prior year.
- Companies with relevant investments may be affected even if their primary office is outside California; having a presence within the state, soliciting/receiving funds from California residents, or investing in California portfolio companies could bring a company within scope.
- The FIPVCC defines a covered entity broadly, potentially implicating entities that are not traditional venture capital firms but have a nexus to California.
- Covered entities subject to the FIPVCC face steep penalties for noncompliance.
- The registration platform is still under development at the DFPI but is expected to be operational by March 1, 2026.

Who Is Required to File

The FIPVCC provides a two-step analysis to determine whether an entity is a "covered entity":

- (1) The entity meets the FIPVCC definition of a "venture capital company"; and
- (2) The venture capital company both:
 - (a) "[p]rimarily engages in the business of investing in, or providing financing to, startup, early-stage, or emerging growth companies"; and
 - (b) Meets a nexus to California as specified under the FIPVCC provisions.

Referring to [10 CCR § 260.204.9\(a\)\(4\)](#), the FIPVCC defines "venture capital company" as an entity that:

- (A) 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, as defined in subsection (a)(5) of this rule, or derivative investments, as defined in subsection (a)(6) of this rule; or
- (B) is either (i) a venture capital fund under Rule 203(l)-1 adopted by the Securities and Exchange Commission or (ii) a venture capital operating company under Rule 2510.3-101(d) adopted by the U.S. Department of Labor.

The FIPVCC defines a venture capital company broadly by referencing multiple definitions that range from focusing on portfolio allocation in certain types of investments being above a certain amount and management rights over the portfolio companies to marketing to investors and other portfolio allocation and fund behavior.

The DFPI has not given more context for when a venture capital company might cross the threshold of primarily engaging in “the business of investing in, or providing financing to, startup, early-stage, or emerging growth companies.” Entities falling into the definition of a venture capital company with significant holdings in companies that may be startup, early-stage, or emerging growth companies may be implicated.

The [FIPVCC states](#) that any venture capital company primarily engaging in the business of investing in, or providing financing to, startups, early-stage, or emerging growth companies is a covered entity if any of the following California nexus criteria are true for the relevant entity:

- (A) The venture capital company is headquartered in California.
- (B) The venture capital company has a significant presence or operational office in California.
- (C) The venture capital company makes venture capital investments in businesses that are located in, or have significant operations in, California.
- (D) The venture capital company solicits or receives investments from a person who is a resident of California.

This nexus prong is broad, ranging from covering venture capital companies that are headquartered in California to venture capital companies that do not even have offices in California but invest in California companies or solicit or receive investments from California residents. However, correspondence with VCC support (at VCC_Support@dfpi.ca.gov, the email contact given by the DFPI for questions on the FIPVCC) confirmed that the registration and reporting obligations are triggered only if the venture capital company, in each case during the prior calendar year, both (1) primarily engages in the business of investing in or providing financing to startup, early-stage, or emerging growth companies; and (2) meets any of the nexus prong criteria in Cal. Corp. Code [Section 27500\(b\)\(2\)](#) (i.e., A through D above). A venture capital company must have met the requirements under the “covered entity” definition during the 2025 calendar year to need to report in 2026.

For example, a venture capital company making a venture capital investment in a business located in California in 2024, but not meeting any of the California nexus prong criteria in 2025, would not trigger the requirement to report in 2026.

Compliance Deadlines and How to Comply

Covered entities must register with the DFPI (with registration available by March 1, 2026). This entails [submitting the covered entity’s following contact information](#):

- (1) Legal name
- (2) Email address, telephone number, and physical business address
- (3) Website
- (4) Designated contact person’s name, title, and email address

Covered entities will submit contact information via the DFPI’s electronic registration portal, which is currently still under development but is expected to be operational by March 1, 2026.

By April 1, 2026, each covered entity must file its first annual report covering investments made in calendar year 2025 as well as any updates to its contact information since registering with the DFPI. The annual report will contain the aggregated, anonymized results of the covered entity’s survey to its portfolio companies’ “founding team members”¹; the survey gathers these demographics of founding team members:

- Gender identity
- Race
- Ethnicity
- Disability status
- LGBTQ+ status
- Veteran or disabled veteran status
- California residency

¹ A “founding team member” is either:

- (1) A person who satisfies all of the following conditions:
 - (A) The person owned initial shares or similar ownership interests of the business.
 - (B) The person contributed to the concept of, research for, development of, or work performed by the business before initial shares were issued.
 - (C) The person was not a passive investor in the business.
- (2) A person who has been designated as the chief executive officer or president.

Since the survey is voluntary, founding team members of the covered entity’s portfolio companies may decline to answer the survey questions, and the covered entity should not “in any way encourage, incentivize, or attempt to influence the decision of a founding team member to participate in the survey.” Those refusals must be included in the aggregate, anonymized results submitted to the DFPI.

The annual report will also have to include the following information:

- Total number and amount of venture capital investments made by the covered entity in businesses in the prior calendar year in the aggregate (and the percentage of each of the total number and amount of venture capital investments made in businesses “primarily founded by diverse founding team members,”² broken down by demographic (including those who declined to answer)).
- Total amount of money in venture capital investments the covered entity invested in each business during the prior calendar year.
- Principal place of business of each company in which the covered entity made a venture capital investment during the prior calendar year. While investing in companies not located in (or having significant operations in) California does not trigger any reporting requirements under the FIPVCC, once those reporting requirements are otherwise triggered, they do not exclude companies outside California.

By April 1 of each subsequent year, covered entities will then have to file annual reports with updated information covering the prior calendar year, as well as provide any updates to contact information for the covered entity.

² A “diverse founding team member” is “a founding team member who self-identifies as a woman, nonbinary, Black, African American, Hispanic, Latino-Latina, Asian, Pacific Islander, Native American, Native Hawaiian, Alaskan Native, disabled, veteran or disabled veteran, lesbian, gay, bisexual, transgender, or queer.”

Filing Fees, Penalties of Noncompliance, and Data Retention

Each report filing will have a filing fee of at least \$175. The DFPI shall notify covered entities that do not comply and provide a 60-day cure period. Covered entities that do not cure their noncompliance before the end of the cure period may be assessed \$5,000 or more per day of noncompliance.

Recommended Actions

Given the FIPVCC’s broad definition of a venture capital company and the broad nexus prong for determining whether an entity is a covered entity, funds and other entities that do not consider themselves to be a typical venture capital firm should confirm whether or not they are technically a covered entity. Each covered entity should prepare to (1) register with the DFPI (confirming contact information and monitoring when the DFPI’s registration portal becomes available, which is expected to be by March 1, 2026); (2) implement the DFPI’s survey among its portfolio companies’ founding team members; and (3) collect and organize the other information required to be included within the annual report. The DFPI has posted the required [Venture Capital Demographic Data Survey](#) and [Venture Capital Demographic Data Report](#) template, so potential covered entities can confirm what other information the DFPI requires within the annual report. Potential covered entities with any questions about whether they are covered by the FIPVCC’s requirements or how to comply with the FIPVCC should reach out with any questions to counsel.



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