

# California's Venture Capital Diversity Reporting Deadline Approaches

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Reporting requirements are rapidly approaching under California's first-of-its-kind law requiring qualifying investment firms with a California nexus to collect and annually report demographic data about the founding teams of the companies in which they invest. While the caption of the law focuses on venture capital, its actual application may be much broader, including funds that may not consider themselves to be truly focused on "venture capital," and those that do not have offices or significant investments in California.

As detailed below, registration commences on **March 1, 2026** for covered entities, with a deadline of **April 1, 2026** for the first annual report covering 2025 investments.

## Background

California's Fair Investment Practices by Venture Capital Companies Act was enacted with the objective of improving transparency regarding who receives venture capital funding, and to encourage more equitable capital allocation across diverse founders. Originally codified as [Senate Bill 54](#), the statute was amended and replaced by [SB 164](#) in 2024. SB 164 delayed the first compliance dates from 2025 to 2026, narrowed the scope of reporting obligations, and shifted enforcement from the California Civil Rights Department to the Department of Financial Protection and Innovation ("DFPI"). Given the intentionally broad scope of the law, and even with certain revisions to the original language of the bill, it could impact a wide variety of funds.

## Scoping

To be subject to the law, an entity must satisfy **all three** of the following criteria:

- 1. Qualifies as a "Venture Capital Company"**

A "venture capital company" is defined in the law to include any entity that meets any one of the following:

- On at least one occasion in each annual period since initial capitalization, **50% or more of its assets** (excluding short-term investments) are “venture capital investments” or “derivative investments,” generally defined as investments in which the fund secures **management rights**.<sup>1</sup>
- It is defined as a “venture capital fund” under the Securities and Exchange Commission’s Rule 203(l)-1;  
or
- It qualifies as a “venture capital operating company” (“VCOC”) under the Department of Labor’s ERISA regulations.

These tests together capture a wide array of funds, in part because many types of funds are structured as VCOCs in order to avoid application of ERISA fiduciary duties.

## **2. Has a California Nexus**

In order to be a covered entity, the fund must have a California nexus, defined as any one of the following:

- Headquartered in California;
- Maintains a significant presence or operational office in California;
- Makes venture capital investments in businesses located in or with significant operations in California;  
or
- Solicits or receives investments from one or more California residents.

Like the “venture capital company” prong above, the “nexus” test is intentionally broad and would capture a number of firms, given that investments made within the state, and any investments from California entities, will create a sufficient nexus under the law.

## **3. Is Primarily Engaged in Investing in Startup, Early-Stage, or Emerging Growth Companies**

Finally, in order to trigger registration and reporting under the statute, a fund must be “primarily engaged” in investing in or financing “startup, early-stage, or emerging growth companies.” These terms are not defined in the law, creating interpretive questions for some funds, particularly around the meaning of “emerging growth companies” within this context.

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<sup>1</sup> For these purposes, “Venture capital investment” means 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.”

“Management rights” means the right, obtained contractually or through ownership of securities, either through one person alone or in conjunction with one or more persons acting together or through an affiliated person, 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.

“Derivative investment” means an acquisition of securities by a venture capital company in the ordinary course of its business in exchange for an existing venture capital investment either (i) upon the exercise or conversion of the existing venture capital investment or (ii) in connection with a public offering of securities or the merger or reorganization of the operating company to which the existing venture capital investment relates.

## Registration Requirement

Covered entities must register with the DFPI, providing basic identifying information and a designated compliance contact. The registration portal is expected to be available by **March 1, 2026** via link on the [DFPI website](#). Registration must be maintained and updated as needed in subsequent years.

## Reporting Requirements

Annual reporting obligations begin with first reports due **April 1, 2026** for investments made in during the 2025 calendar year. Reports are due each year thereafter by April 1, covering the prior calendar year's activity.

### A. Founder Demographics

For each portfolio company in which the covered entity made a “venture capital investment” during the prior year, the covered entity must report **aggregated demographic data** for all “founding team members,” including:

- Gender identity (including nonbinary and gender-fluid identities);
- Race;
- Ethnicity;
- Disability status;
- Whether the founder identifies as LGBTQ+;
- Veteran or disabled veteran status;
- California residency; and
- Whether any founder declined to provide the information.

“Founding team member” means (i) a person designated as the CEO or the president, and (ii) any individual who (a) owned initial shares or similar interests, (b) contributed to the business's concept/research/development pre-issuance of initial shares, and (c) was not a passive investor.

Notably, the participation of founding team members is voluntary, and covered entities (as well as DFPI) are prohibited from encouraging or incentivizing founding team members' participation in the survey.

The DFPI has published a template survey for covered entities to distribute to their investee company founding team members, [available here](#) and via the [DFPI website](#).

### B. Investment Metrics

Covered entities must also disclose:

- Total number and dollar amount of investments made in companies **primarily founded by diverse founding teams**, expressed as both a percentage of total investments (by count) and as a percentage of total capital invested; and
- The **aggregate capital invested** and **principal place of business** for each investment.

A business is generally treated as “primarily founded by diverse founding team members” if more than half of the founding team responded to the survey and at least half self-identify as belonging to a diverse group under the statute.

Investment metrics, as well as founder demographics, are to be reported to DFPI using the template [available here](#) and via the [DFPI website](#).

## Enforcement and Penalties

If DFPI determines that an entity has failed to submit the required annual report, it is required to provide notification to the entity, following which the fund will have a **60-day cure period** to file without penalty. After the cure period, the DFPI can impose administrative penalties, which could include penalties of \$5,000 per day for non-compliance, or greater amounts for reckless violations.

## Next Steps

Covered entities should take the following steps to prepare for compliance:

- **Assess scoping**, considering the fund’s investment profile and stated investment objectives, as well as all potential California nexus triggers;
- **Develop internal processes** for distributing the DFPI survey and tracking founder responses;
- **Coordinate with portfolio companies** on survey administration, privacy, and the handling of declined responses; and
- **Monitor DFPI guidance** and registration portal availability.

For further information regarding this Alert, please contact one of the following authors:

NEW YORK CITY

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**Leah Malone**

+1-212-455-3560

[leah.malone@stblaw.com](mailto:leah.malone@stblaw.com)

**May Mansour**

+1-212-455-3886

[may.mansour@stblaw.com](mailto:may.mansour@stblaw.com)



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