

California Suspends Implementation and Enforcement of Fair Investment Practices by Venture Capital Companies Act Pending Rulemaking Process

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We previously published this alert about California's Fair Investment Practices by Venture Capital Companies Act (FIPVCC), which contains diversity reporting requirements for venture capital and other investment funds that have a nexus to California and, until yesterday, had an April 1, 2026, compliance deadline. **Yesterday the California Department of Financial Protection and Innovation (DFPI) announced that it plans to initiate rulemaking in response to comments by various stakeholders relating to the FIPVCC. To that end, implementation and enforcement of the FIPVCC are being suspended pending completion of the rulemaking and until final regulations are in place. DFPI is no longer requiring covered entities to submit registrations or file reports by the April 1, 2026, deadline.** Once the rulemaking is completed, further guidance is expected. In the interim, no action is required.

California's Fair Investment Practices by Venture Capital Companies (FIPVCC) law is now in effect and imposes significant new registration and annual reporting obligations on venture capital funds and other asset management vehicles with a California nexus. Venture capital companies that invest in or finance startup, early-stage, or emerging growth companies where the fund is headquartered in, operates in, invests in, or solicits or raises capital from investors in California must (1) register with the California Department of Financial Protection and Innovation (DFPI) beginning March 1, 2026, and keep that information current; and (2) submit an anonymized demographic and investment activity report by April 1, 2026, and annually thereafter. Noncompliance can trigger DFPI enforcement actions and civil penalties of up to \$5,000 per day (with the potential for higher penalties for knowing or reckless violations), making it critical for affected funds to determine now whether they are subject to FIPVCC and to prepare for these reporting obligations.

1. Are your investment vehicles venture capital companies? Under the FIPVCC, an entity is a "venture capital company" if it fits at least one of the following categories:
 - a. On at least one occasion during the annual period (for this purpose, the annual period is the last year measured by the anniversary date of the initial capitalization of the entity) at least 50% of its assets (other than short-term investments pending long-term commitment or distribution to investors), valued at cost, are venture capital investments in operating companies where it has management rights (or derivative investments of those venture capital investments, which would be an acquisition of securities in the normal course in exchange for an existing venture capital investment either upon exercise or conversion of the existing venture capital investment or in connection with a public offering or merger/reorganization to which the existing venture capital investment relates);
 - b. Qualifying as a "venture capital fund" under SEC Rule 203(l)-1 (i.e., a private fund that represents to investors that it pursues a venture capital strategy and holds at least 80% of capital in equity of nonpublic qualifying

- portfolio companies); or
 - c. Qualifying as a “venture capital operating company” under ERISA (again focused on majority holdings of venture?type investments with management rights).
2. If an entity is a venture capital company described above, then the analysis moves to whether the entity primarily engages in investing in or providing financing to startup, early?stage, or emerging growth companies, and if the entity meets the California nexus test. The first step of this part of the analysis is straightforward, and the California nexus test is met if the entity meets any of the below criteria:
- a. Is headquartered in California;
 - b. Has a significant presence or operational office in California;
 - c. Makes venture capital investments in businesses located in, or with significant operations in, California; or
 - d. Solicits or receives investments from California residents (including California limited partners).

Based on the above, many venture funds and other investment vehicles are subject to FIPVCC reporting (covered entities). Your counsel can help to confirm on a fund?by?fund basis, but at a high level, entities that (1) follow a venture/early?stage investment strategy, and (2) have a California nexus, are very likely subject to FIPVCC reporting requirements. Covered entities must do the below:

1. Commencing March 1, 2026 – Each covered entity must register with the DFPI, identifying the entity and providing contact details (e.g., entity name, individual point of contact, and contact information including address and website). This information must be kept up to date in subsequent years. [Here is the link for registering with the DFPI.](#)
2. By April 1, 2026 (and annually thereafter) – Each covered entity must submit a substantive, anonymized demographic report summarizing founder?level survey responses and investment activity for the prior calendar year. Importantly, the survey must be sent to all companies into which the covered entity made a venture capital investment in the prior year, not just those with a California nexus. The link to the [survey can be found here](#), and the link for the [report can be found here](#).

If a covered entity fails to submit the required April 1 report, DFPI is required to send a notice giving the entity 60 days to submit the report without penalty. If the entity still fails to report after that 60?day cure period, DFPI may seek a court order compelling compliance and impose civil penalties of up to \$5,000 per day, with the possibility of higher penalties for knowing or reckless violations. A similar 60?day cure concept applies if the basic identifying information is not kept current by April 1.

If you think your fund(s) might be subject to FIPVCC reporting, please reach out; Troutman Pepper Locke’s team of attorneys is available to help your fund(s) determine if FIPVCC reporting is required.

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