

California Law to Mandate Release of VC Investment Diversity Information

Governor Newsom has just signed **SB 54**, which will require venture capital firms in the state of California to annually report the diversity of founders they are backing. According to **Tech Crunch's reporting**, SB 54 will result in amendments to the Business and Professional Code and also will amend part of the Government Code pertaining to venture capital.

What is California SB 54?

SB 54 goes into effect as of March 1, 2025, and requires the following aggregated information to be reported on all VC investments:

- *The gender identity of each member of the founding team, including nonbinary and gender-fluid identities.*
- *The race of each member of the founding team.*
- *The ethnicity of each member of the founding team.*
- *The disability status of each member of the founding team.*
- *Whether any member of the founding team identifies as LGBTQ+.*
- *Whether any member of the founding team is a veteran or a disabled veteran.*
- *Whether any member of the founding team is a resident of California.*
- *Whether any member of the founding team declined to provide any of the information described above.*

Failure to timely comply with the reporting requirement may result in the assessment of a penalty of One Hundred Thousand Dollars (\$100,000.00) to be assessed against a "covered

person.” **SB 54** defines “covered person” as any person who does both of the following:

- *Acts as an investment adviser to a venture capital company.*
- *Meets any of the following criteria: (i) Has a certificate from the Commissioner of Financial Protection and Innovation pursuant to Section 25231 of the Corporations Code. (ii) Has filed an annual notice with the Commissioner of Financial Protection and Innovation pursuant to subdivision (b) of Section 25230.1 of the Corporations Code. (iii) Is exempt from registration under the Investment Advisers Act of 1940 pursuant to subsection (l) of Section 80b-3 of Title 15 of the United States Code and has filed a report with the Commissioner of Financial Protection and Innovation pursuant to paragraph (2) of subdivision (b) of Section 260.204.9 of Title 10 of the California Code of Regulations.*

SB 54 provides that reports will be due by March 1st of each year.

What is the Argument in Favor of SB 54?

Tech Crunch reports that supporters of SB 54 have argued that this law will make venture capital more “transparent.” According to **Tech Crunch**, less than 3 % of all venture capital investments go to women or black founders.

Tech Crunch reported that SB 54 was opposed by the National Venture Capital Association and TechNet, though both organizations professed to support generally the concept of diversity in venture capital.

What is the Anticipated Impact of SB54?

Although the impact of SB 54 will go beyond just the software

industry, this new law is likely to have a significant impact on software and SaaS companies, particularly those having diverse founders, as mandated reporting will likely incentivize venture capital firms to further focus on considering diversity in investment. If your software company has diverse founders, you will definitely want to keep this law on your radar screen going forward.