July 17, 2026

BY EMAIL
regulations@dfpi.ca.gov

Department of Financial Protection and Innovation
Attn: Pamela Hernandez, Senior Counsel for the Commissioner
651 Bannon Street, Suite 300
Sacramento, CA 95811

Re: Comments on Proposed Rulemaking Under the Fair Investment Practices by Venture Capital Companies Rule (PRO 01-26)

Dear Ms. Hernandez:

Andreessen Horowitz (a16z) appreciates the opportunity to comment on the California Department of Financial Protection and Innovation's (DFPI) proposed rulemaking under the Fair Investment Practices by Venture Capital Companies Rule (the Rule). We have significant concerns about the Rule and do not believe it can be implemented as drafted. Our core recommendation is for the statute to be withdrawn or substantially amended. If that option is unavailable to the Department, we urge the DFPI to administer the survey directly to founders, rather than through covered entities.

a16z has a longstanding commitment to supporting diverse founders through initiatives discussed below. However, this Rule is not an effective nor appropriate way to advance that objective. We believe it risks doing more harm than good: places investors in the inappropriate position of asking founders to disclose highly sensitive demographic information; creates implicit pressure on founders to respond because the request comes from a capital provider, rather than a neutral third party; generates incomplete and unreliable data because participation is voluntary and response rates will likely be low and uneven; and requires public disclosure in a manner that appears to be a firm-attributable naming-and-shaming regime. Those outcomes do not serve founders, improve capital formation, or produce meaningful insight into diversity in venture funding. As such, the Rule should be withdrawn or substantially reworked. If DFPI does proceed, it should do so through a centralized, DFPI-administered model that removes venture capital firms from the collection of individual founder demographic data and uses its interpretative authority to implement the Rule more narrowly.

I. About the Firm

a16z is a venture capital firm and registered investment adviser that invests in seed, venture, and growth-stage technology companies, focused on AI, bio and healthcare, consumer, crypto, enterprise, fintech, games, infrastructure, and companies building toward American dynamism. As of 2026, a16z has more than $100 billion of regulatory assets under management across multiple funds.

For the better part of a decade, the firm has been supporting diverse founders. In 2018, we founded the Cultural Leadership Fund (CLF), which became the first venture capital fund in Silicon Valley composed entirely of Black limited partners. By connecting the most influential leaders in culture with the most promising companies in technology, the firm believed it would create opportunity for both sides. As of today, a16z has raised three CLF funds, all of which donate 100% of fees to nonprofit organizations working to bring more African Americans into the technology industry.[1]

In 2020, we launched the Talent x Opportunity Initiative (TxO), an accelerator created specifically for founders who have the talent, drive, and ideas to build great companies but lack the typical background and resources to do so. TxO supported nearly 100 founders across more than 60 companies, and provided not only capital but a structured training program, mentorship, and access to networks that founders outside the traditional pipeline could rarely reach. TxO was structured so that returns were recycled to support the next generation of founders.[2]

The firm's partners have also written and spoken publicly about why this work matters; about how certain minority entrepreneurs have historically been unrecognized, and about the firm's proactive stance to support and improve upon diversity within the industry.[3]

We make these points to frame our comments and convey our long-standing commitment to supporting diverse founders. However, the Rule does not achieve these same aims and will not result in accurate, meaningful data about diversity in venture funding. More likely, it will generate unreliable information and place the very founders it aims to study at risk of privacy harm and re-identification. And, no matter how well-intentioned the Rule's objectives are, good intentions don't necessarily equate to good rules.

That framework does not serve founders, improve access to capital, or produce reliable data capable of advancing the Rule's stated policy objectives. DFPI should withdraw the proposed implementation or recommend legislative changes necessary to address these defects before requiring compliance.

II. The Rule Should Not Be Implemented as Designed

Before turning to specific fixes, our threshold position is that the Rule cannot be implemented as written. The problem is not burden or ambiguity, though both exist. The problem is the mechanism. The Rule requires venture capital firms to collect sensitive demographic data from the founders they fund, handle that data, and report it to the State for public release. That design is defective at its foundation, and the defects compound rather than resolve as one works through the detail.

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[1] Andreessen Horowitz, *Cultural Leadership Fund*, https://a16z.com/clf/ and https://a16z.com/announcing-clf-iii/

[2] Andreessen Horowitz, *Introducing the Talent x Opportunity Fund* (June 2020), https://a16z.com/introducing-the-talent-x-opportunity-fund/.

[3] Andreessen Horowitz, *Black History's Impact on Entrepreneurship*, https://a16z.com/black-historys-impact-on-entrepreneurship/ (last visited July 2026).

The starting point is that California has already decided this data is sensitive. Under the California Privacy Rights Act "sensitive personal information" expressly includes racial or ethnic origin and information about sexual orientation[4] — the same categories this Rule compels covered entities to collect. California law gives residents the right to limit how that information is used, and where two laws conflict, directs that the one affording greater privacy protection controls.[5] The Rule forces investors to gather information the state itself treats as warranting heightened protection, then channels it toward public disclosure. That is not a gap for rulemaking to close. It is a contradiction to another existing, well-established policy.

III. DFPI Should Administer the Survey Directly

The statute could be read as assigning certain survey and reporting duties to covered entities. Section 27501(c)(1) directs a covered entity to obtain the required information by "providing each founding team member... with an opportunity to participate in a survey," and subdivision (d) directs the covered entity to collect and report that data without associating it with any individual. To the extent DFPI is forced to implement the Rule, we ask it to use its rulemaking authority to administer the survey directly, through a centralized process or website — an approach the statutory text permits and, arguably, requires.

The text supports this reading. The survey must be conducted "pursuant to a standardized form specified by the department",[6] which gives DFPI control over the instrument itself. The statute already casts DFPI as a direct participant in the survey relationship and treats covered-entity involvement as a vector for improper influence, barring both the covered entity and the Department from encouraging or influencing a founder's participation.[7] Most significantly, the statute requires that survey responses be collected "in a manner that does not associate the survey response data with an individual founding team member".[8] That non-association command is difficult to reconcile with direct collection by the covered entity: when a founder returns a completed survey to the very firm that funded them, the firm knows the respondent's identity. A DFPI-hosted collection process, where responses are submitted to and held by the Department or a secure DFPI platform is the most reliable way, and–we believe–the only way to satisfy the statute's own anonymization requirement.

Under that approach, a covered entity would satisfy its obligations by registering with DFPI and making its portfolio companies aware of the DFPI website and that founders may choose whether to provide such information to the Department on a voluntary basis. DFPI, or a secure third-party platform administered by DFPI, could then collect responses it receives directly from founders, maintain the data, and determine what information can be published without creating privacy or re-identification risk. This reading is also the only one that harmonizes the Rule with California's broader privacy framework, which treats many of the requested demographic

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[4] Cal. Civ. Code § 1798.140(ae)(1)(D), (2)(C).
[5] Cal. Civ. Code §§ 1798.121, subd. (a), 1798.175.
[6] § 27501(c)(2)
[7] § 27501(c)(5)
[8] § 27501(d)(1)

categories as sensitive personal information and requires careful limits on collection, use, retention, and disclosure.

If DFPI concludes that the existing text does not authorize this model, it should recommend a legislative amendment to permit it. Either of these options would preserve the Rule's objectives: DFPI still receives the demographic data; founding team members still have the opportunity to participate; and the covered entity still registers with the Department. What changes is that the collection and custody of individual demographic responses sits with a neutral regulator rather than with the investors who control the founders' access to capital.

IV. The Definition of Covered Entity is Excessively Broad

Section 27500, subdivision (b) of the Rule defines a covered entity using four alternative jurisdictional hooks, any one of which is sufficient to trigger the Rule's requirements. In practice, the fourth criterion (that the firm "solicit or receive investments from a person who is a resident of California") is so broad as to capture virtually every venture capital firm operating in the United States.

Most institutional venture capital funds raise capital from limited partners that include California-based institutions or individuals. Even a fund headquartered in New York or London with a *single* California LP would be a "covered entity" subject to registration, survey, and reporting obligations.

Similarly, subdivision (b)(2)(C), which captures firms making investments in businesses with "significant operations" in California, would sweep in any fund that has invested in a company that later hired California employees or opened an office in the state, regardless of where the company was incorporated or headquartered at the time of investment. Given that California startups raised 62% of all U.S. venture capital dollars in 2025,[9] a venture firm that invested in just one of those California-based businesses during the prior calendar year would be a "covered entity." The result is unnecessarily broad and goes beyond the state's direct interest by capturing the vast majority of U.S. and even non-U.S. venture capital firms.

The DFPI should reconsider who counts as a covered entity and establish meaningful thresholds for each jurisdictional criterion. In particular:

- "Headquartered in California" should only include the entity's principal office and place of business, consistent with the approach taken by the U.S. Securities and Exchange Commission in Form ADV.
- "Residents of California" should be limited to LP interests above a defined percentage of aggregate capital commitments (for example 25% of total fund commitments).
- Venture firms should not be a covered entity merely because they solicited an investment from a California-resident LP during the prior calendar year.

[9] https://www.axios.com/2026/01/26/california-startups-venture-capital

- There should also be a materiality threshold for venture capital firms making investments in California businesses. For example, a firm is only a covered entity if it invested >25% of aggregate fund capital in California-based companies during the prior calendar year.
- Reference to a portfolio company having a “significant presence” in California should be clarified to only include companies that are headquartered or have their principal place of business in California *and* which received a qualifying venture capital investment above a certain threshold (for example $1 million) during the reporting year.

Without these guardrails, the Rule’s footprint will far exceed what California has a legitimate regulatory interest in, and will impose survey and reporting obligations on investments in companies with no meaningful California nexus.

V. Consolidated Reporting at the Control-Company Level

On a separate but related point, Section 27501(d)(3) permits a covered entity to satisfy its obligations through a report prepared by a business that controls it. We urge DFPI to implement this provision broadly, for three reasons.

First, it reflects how the industry is structured. A single management company typically advises multiple funds, each of which may independently meet the definition of a covered entity. Second, requiring each fund to register and report separately imposes duplicative burden without improving data quality. Finally, reporting per fund increases the re-identification risk for founders. DFPI should permit a controlling business to register on behalf of, and report for, all the covered entities it controls, and to pay a single report fee on that consolidated basis.

VI. International Investments Should Be Excluded

The Rule’s reporting requirements should not extend to investments in businesses located outside the United States. California has no regulatory interest in the demographic composition of founding teams in foreign companies, and requiring covered entities to survey founders in other jurisdictions creates serious legal and practical obstacles.

Data privacy laws in many jurisdictions–including the European Union’s General Data Protection Regulation (GDPR), the UK GDPR, and data localization requirements in India and other markets—restrict or prohibit the collection and cross-border transfer of personal data. This often includes demographic information such as race, ethnicity, gender identity, disability status, and sexual orientation. Such categories of data are frequently subject to heightened protection, and collection could expose covered entities to liability under foreign laws.

A covered entity should not be placed in the position of choosing between compliance with the DFPI Rule and the law of the jurisdiction in which its portfolio company operates. DFPI should adopt a clear regulatory exclusion for investments in businesses incorporated outside the United States, since it does not have a compelling reason to collect this information. The DFPI should clarify that a covered entity is not in violation of the Rule for failing to survey founding team members located in non-U.S. jurisdictions. Once again, we believe the Rule is inappropriate and should not be implemented as is, but the issue could also be resolved if the DFPI were to make the survey available directly and founders could choose to complete it.

VII. “Founding Team Member” Requires Substantial Clarification

The statutory definition of “founding team member” creates significant uncertainty that will impede consistent compliance across covered entities. Two structural problems warrant attention.

A. The Pre-Issuance Contribution Test Is Ambiguous

Under section 27500(e)(1), a founding team member is someone who (i) owned initial shares, (ii) contributed to the concept, research, development, or work performed by the business before initial shares were issued, and (iii) was not a passive investor. The pre-issuance contribution threshold in criterion (ii) is undefined and ambiguous.

At founding, companies often involve a wide range of individuals: advisors, contractors, early employees, research collaborators. All of these individuals can make meaningful contributions before any equity is formally issued. Whether any of these individuals constitute “founding team members” under the Rule is unclear. If the definition is read broadly, covered entities may be required to identify and survey individuals who no longer work for the company, whose contact information may not be retained, and who may not consider themselves founders in any meaningful sense.

DFPI should define “contributed to the concept, research, development, or work performed” in a way that limits the definition to individuals who held a material founder role—for example, individuals who received more than a de minimis initial equity stake (such as 5% or more of shares at the time of issuance) *and* who played a principal role at the point the company first raised venture funding. Requiring the company or the venture firm to consider activity that predates the investment could be administratively burdensome, difficult to apply and strays from the policy objectives of the Rule. That is: to understand whether diverse founders are getting access to venture funding, not whether they helped form the company that went onto raise capital.

B. Departed Founders Present Practical Challenges

The Rule does not address how covered entities should handle founding team members who have left the company before the survey obligation arises. A founder who departed before the reporting year may have no ongoing relationship with either the portfolio company or the covered entity. Contact information may be unavailable and the individual may object to being surveyed in connection with a company they no longer have a relationship with. The regulation should not impose an obligation on covered entities to track down such persons.

This problem is substantially mitigated if DFPI administers the survey directly. Under DFPI-direct administration, covered entities would not be responsible for maintaining contact information or managing outreach to individuals who have left portfolio companies. DFPI could establish its own process for handling non-responses.

VIII. The Survey Structure Creates Coercion and Re-Identification Risks

A. Voluntary Responses May Not Be Truly Voluntary

The Rule provides that founding team member participation in the survey is voluntary. However, when a survey is delivered by, or visibly associated with, the firm that controls the company's access to capital, voluntary participation may not reflect reality. Particularly in earlier-stage startups, founders have strong institutional incentives to respond favorably to requests from their investors, and to avoid any action that might be perceived as uncooperative.

The statute's own rule timing compounds this concern. Section 27501(c)(4) bars a covered entity from delivering the survey until *after* it has closed the investment and made the first transfer of funds. In other words, the survey reaches founders only once they are financially dependent on the firm. And the statutory assurances that participation is voluntary and that "no adverse action will be taken" do not neutralize that dynamic. A survey issued by DFPI, rather than by the founder's own investor, carries none of that implicit pressure — a further reason to remove the covered entity from the collection process.

B. Low Response Rates Will Produce Unreliable Data

On the flip side are founders too busy running their companies to engage in a voluntary survey, especially where they're asked to share sensitive personal information with their investor, regulator and, arguably, the public at large. Founders who receive the same survey from multiple investors which ask for the same information are more likely to experience survey fatigue. This could further discourage them from completing some or all of the surveys. Any limitation to response rates will skew results, produce data of limited benefit to DFPI, and potentially mislead readers, if published. DFPI should not permit non-responses or low responses to be converted into a negative diversity classification. Where response rates are too low to satisfy the statutory threshold, the only accurate classification is "insufficient response" or "undetermined."

C. Publication of Covered-Entity Reports Should Be Narrowed to Minimize Re-Identification Risk

While we vehemently disagree with the statutory naming-and-shaming exercise and it is one of several reasons we argue that the Rule should be withdrawn, we recognize there is a requirement in the current text for DFPI to make data available on its website and separately publish aggregate results. To reduce the risk identified in this section, we urge DFPI to use its rulemaking authority to implement that requirement in a way that minimizes the significant privacy and re-identification risks the current structure creates, and to make aggregate, industry-level analysis, rather than firm-attributable data, the primary public-facing presentation of results.

In particular, two features of the current framework make narrowing essential.

- First, publication creates a meaningful risk that nominally anonymized data can be re-identified. That risk is highest in cases involving: (i) companies with smaller founding teams, where even aggregated responses may identify individuals; (ii) portfolio companies where one founder is publicly associated with the company, making the demographic data of remaining founders inferable; (iii) investment amounts that, combined with principal place of business data, create a fingerprint for the investment; and (iv) electronic survey responses that could associate responses with individual senders. Once published in a searchable, downloadable format, this data cannot be retracted, and the individuals exposed have no recourse. These risks also implicate the Rule's own directive that reported data be "anonymized to the extent possible" and that survey responses should not be associated with individual founding team members. In our view, DFPI must interpret this as requiring the mitigations described below.

- Second, firm-attributable publication risks misleading the public. Because survey participation is voluntary and response rates are likely to be low and uneven, published firm-level results will frequently misrepresent the actual demographic composition of a firm's portfolio. A firm with a diverse portfolio but low founder response rates could be publicly characterized as having invested in few diverse founders—an inaccuracy that publication broadcasts and that a firm cannot correct without disclosing the underlying data.

If the policy's objective is to help diverse founders access capital, firm-attributable publication does not advance that goal. To reconcile the statutory publication requirement with these privacy and accuracy concerns, DFPI should draw on the measures raised throughout this letter:

1. Administer survey collection directly, so that individual responses never reside with the covered entity and the most sensitive data is held only by the regulator.
2. Permit consolidated reporting at the control-company level, reducing firm administration and the likelihood of individual founders being identified.
3. The directives that data be "anonymized to the extent possible" and that responses not be associated with any individual should be read to mandate DFPI direct collection and suppression of low-count categories, redaction where founder identity could be inferred, and the use of investment ranges rather than exact dollar amounts.
4. Make aggregate, industry-level analysis the primary public-facing output. To the extent DFPI does need to publish more detailed results, reports should not include misleading or underrepresented data or responses that were so low it could identify a responder.

IX. Conclusion

The Rule will not support nor help diverse founders access more venture funding. This is why a16z cannot support it. As drafted, it requires investors to collect sensitive demographic data; seeks anonymization, but then compels disclosure of that information which could identify the very people it means to protect; and then relies on incomplete and unreliable data to achieve the policy objectives.

The right course is to withdraw the proposed implementation and, where necessary, seek the statutory changes these defects require. If DFPI proceeds, at a minimum, it should administer the survey directly, narrow the definitions the statute leaves open, and limit public disclosure to what can be released without exposing founders. While still imperfect, these changes would at least produce better data, at lower cost and far less risk to founders than the current structure.

We appreciate the opportunity to comment and welcome the chance to discuss any of these recommendations with the Department.

Jai Ramaswamy, Chief Legal Officer

Scott Walker, Chief Compliance Officer