



August 28, 2023

The Honorable Nancy Skinner  
1021 O Street, Room 8630  
Sacramento, CA 94814

**RE: SB 54 (Skinner) – Venture capital companies: reporting – OPPOSE**

Dear Senator Skinner,

On behalf of venture capital (VC) investors and the entrepreneurs they support, I write to raise significant concerns about the unintended consequences that SB 54 would have on the California startup ecosystem. While well-intentioned in principle, in practice, SB 54 would produce misleading and counterproductive data that would hurt the cause of diversity, equity, and inclusion (DEI) efforts while creating unnecessary costs and risks for California venture capitalists.

We urge you to reconsider this approach and work with us on our common goal of benchmarking diversity in the startup community as a path towards increasing access to opportunity through entrepreneurship.

**Background on Venture Capital**

Venture capital (VC) is uniquely suited to financing innovative products and technologies due to its longer time horizons and equity-based financing model. Venture capitalists create partnerships with institutional investors to combine the capital held by pension funds, endowments, foundations and others with their talent and expertise to make high-risk, long-term equity investments into innovative young companies.

A recent survey of VC-backed companies by NVCA showed that “four out of five respondents spend at least 70 percent of their budgets on two activities, wages and compensation and research and development (R&D).”<sup>1</sup> This emphasizes how venture capital fuels job creation and innovation, even though most of the companies they invest in anticipate operating at a loss for several years.

The standard VC partnership agreement lasts for 10 to 15 years, holding investments significantly longer than any other asset class. It is also important to understand that VC

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<sup>1</sup> *Venture Capital at Work*, NVCA, available at [Venture Capital Investment at Work - National Venture Capital Association - NVCA](#)

investors do not inherently pick winners; they actively engage in developing startups into successful companies. VC investors work alongside their portfolio companies to mentor the executive teams, offer strategic advice (often from seats on the company’s board), and serve as critical resources bridging the divide between the lab and market.

A VC investor’s participation often serves as a conduit to further grow capital opportunities and resources needed to scale, a key factor for expanding innovation opportunity to new regions and building local ecosystems.

Although VC-backed startups have had a profound positive impact on innovation and the economy, women, people of color, and other marginalized communities have frequently been excluded from equal access to VC and opportunity to share in the industry’s success. Women comprise 19% of VC investment partners, while Black professionals account for just 4% and Hispanic professionals account for 5%.<sup>2</sup> Similarly, only 2.4% of capital deployed to startups in 2021 was invested in companies led by female founders, 1.3% in Black founders, and 2.1% in Hispanic founders.<sup>3</sup>

## **Venture Forward**

Venture Forward is a 501(c)(3) nonprofit founded by NVCA to support both current and emerging VC investors by addressing imbalances of access, resources, and opportunity. The organization’s vision is to see more women, people of color, and underrepresented people in investment positions of power who will ultimately fund a more diverse set of innovative founders, helping the ecosystem reach its fullest potential.

To date, Venture Forward has impacted more than 3,000 people through its VC University certificate course; supported 225 underrepresented emerging managers through its LP Office Hours program; and collected DEI data from more than 300 VC firms in its latest VC Human Capital Survey.

## **NVCA and Venture Forward’s Experience in Collecting Diversity Data**

Conducted every two years since 2016, the VC Human Capital Survey—powered by Venture Forward, NVCA, and Deloitte— collects data on VC workforce demographics and VC firm DEI strategies.<sup>4</sup> The survey adopts a rigorous methodology to ensure data collected is 1) intersectional (i.e., capturing information across various demographics); 2) standardized to ensure meaningful analysis; and 3) representative of the overall industry. The most recent survey (the fourth edition) was released in 2023, with data collected from the VC industry in 2022. The next survey will be conducted in 2024.

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<sup>2</sup> [VC Human Capital Survey](#), powered by Venture Forward, NVCA, and Deloitte, April 2023

<sup>3</sup> PitchBook, “US VC female founders dashboard,” March 7, 2023; Gené Teare, “[VC funding to Black founded startups slows dramatically as venture investors pull back](#),” Crunchbase, June 17, 2022; Janice Bitters Turi, “[VC funding to early-stage Latine-founded startups in the US has stalled. Here’s why that matters](#),” Crunchbase, January 26, 2022

<sup>4</sup> [VC Human Capital Survey](#), powered by Venture Forward, NVCA, and Deloitte, April 2023

Drawing from our experience with this survey, we understand the difficulties associated with collecting comprehensive and representative diversity data within the startup community.

## **Concerns with SB 54**

### *Diversity Data Collected will be Misleading and Counterproductive*

The data collection framework outlined in SB 54, comprising a voluntary self-reporting diversity survey, almost ensures that the State of California will maintain a database that significantly inflates diversity figures within the startup ecosystem. Through our efforts at NVCA and Venture Forward, we've learned that diversity surveys solely dependent on voluntary, self-reported submissions tend to distort data, as individuals from diverse backgrounds are more inclined to partake, resulting in an overrepresentation within the dataset.

Due to SB 54's lack of incorporation of fundamental data science methodologies beyond sporadic attempts at anonymization, the database is poised to publish information that greatly exaggerates diversity levels within the startup community. Consequently, the database might be employed for various counterproductive intentions, which could encompass employing it in litigation against diversity programs already operating, like the case involving Fearless Fund at present.

### *SB 54 Process is Inefficient, Unnecessarily Punitive, and will Violate Privacy*

SB 54 introduces a substantial financial liability for the California VC community without any evident rationale aligned with public policy. Within SB 54's framework, VC investors would be obligated to undertake administrative responsibilities like data anonymization and transmission, tasks more effectively accomplished through a direct connection between startups and the Department of Financial Protection and Innovation. The necessity of startups sharing personal demographic information with VC investors, solely for the investors to redundantly forward that exact data to the government, lacks justification and is likely to be perceived by the startup community as an instance of regulatory authority misuse. This superfluous step also increases the likelihood of exposing sensitive personal information. Should SB 54 move forward, the most appropriate transmission mechanism would involve providing startups with a self-addressed envelope for submitting completed surveys directly to the Department.

We understand that the sponsors of SB 54 hold the belief that VC-led anonymization is the optimal approach. However, scenarios will arise where the data provided through a VC investor or a VC fund will be of such small scale that achieving effective anonymization becomes challenging, if not unfeasible. The bill will place both the Department and VC investors in an uncomfortable position, unintentionally risking the exposure of personal information of specific startups and individual founders. Given that many VC funds engage in limited investments within a calendar year, there will be minimal submissions to the State, and the data's susceptibility to manipulation becomes heightened. This manipulation could potentially link

private demographic information to the startup founding teams through their association with VC funds, thereby infringing upon their personal privacy.

*Creates financial risk and complexity for Emerging and Diverse Venture Capitalists*

SB 54 mandates VC funds to bear the entirety of the government's program administrative expenses, with no numerical limitation. Concurrently, it enforces compliance and audit expenditures on funds, without yielding substantial advancements in its objectives. The imposition of both sides of program costs will yield notable financial repercussions, in addition to the significant time cost required to implement new systems and respond to auditors. Particularly concerning is the incorporation of a penalty amounting to \$100,000 for the failure to pass along information provided by founders to the VC fund. This penalty could be devastating enough to bankrupt certain emerging managers who have already undertaken substantial financial risks to open a new VC fund. Furthermore, data shows that these smaller and younger firms—that are facing the highest risk from potential SB 54 mandates—have greater diversity among their investment partner ranks than larger and older firms and have been found more likely to invest in underrepresented founders.<sup>5</sup>

**Conclusion**

NVCA acknowledges and agrees with the overall goals of the sponsors to better determine the scope of access to economic opportunity through entrepreneurship. Nevertheless, we encourage the Legislature to explore an alternative structure to achieve this goal. We are ready to work with any party to advance the critical issue of increasing diversity in the startup ecosystem.

Sincerely,



Bobby Franklin  
President and CEO

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<sup>5</sup> [VC Human Capital Survey](#), powered by Venture Forward, NVCA, and Deloitte, April 2023