

# Broker laws, franchisee protections face funding issues at state level

**By Joe Halpern**

Attorney Tal Grinblat said “the day of reckoning is approaching for franchise brokers in California” following the 2024 passage of a bill tightening regulations around the sale of franchises in the state.

But the attorney at Lewitt Hackman in Encino, California, cautioned that the new law requiring franchise brokers and third-party sellers to register with the state while enforcing stricter guidelines, will likely be delayed at least another year, pending a funding appropriation by the California Legislature.



“It will happen, and good things come to those who wait, but we’re looking at a one-year delay now,” said Grinblat, a longtime proponent of stricter broker regulations in his state. He was one of the attorneys selected to provide comment on the California Franchise Seller Bill, which requires third-party franchise brokers and sales organizations to register annually with the state and provide authorized disclosure documents.

Once the legislature appropriates funding, it will be a year before the law goes into effect, he noted, because the state’s Department of Financial Protection and Innovation will need a 12-month lead for brokers to submit their disclosure documents.

“What I suspect is going on is that California is currently facing a serious budget deficit and the state legislature and the governor need to make priorities as to how to spend the money they have,” Grinblat said.

The DFPI confirmed in late February that funding for the new registration law had not been approved. The California Franchise Seller Bill was written to prevent illegal broker activities and provide new legal remedies for franchisees if brokers violate the new requirements. It was scheduled to take effect July 1.

Franchisors routinely use broker networks and franchise sales organizations to build their lead and development pipelines, and aggressive tactics are not uncommon.

While requirements for the broker disclosure are still in the works, it’s expected that thirdparty sellers will need to provide details such as litigation history, their compensation or incentive structure, and the brands they’ve sold for in the previous year. Brokers who violate the law may be liable for damages to the franchisee or franchisor.

Before it’s instituted, the DFPI needs to provide guidance to brokers on the new registration requirements and prepare forms for them to submit their applications.

### **A ‘bellwether state’**

Grinblat referred to California as a “bellwether state” in its efforts to clamp down on the unscrupulous activities of some franchised brokers, who are classified as a franchise sales organization, or FSO. Like other franchise attorneys who’ve represented franchisees and franchisors in litigation cases, he believes other states will follow California’s lead in introducing stricter regulations.

Franchise brokers often face high levels of scrutiny and legal action because they sit at the volatile intersection of sales, high-stakes investment and, in some cases,

use aggressive marketing tactics that overpromise results. Because brokers are often compensated through commissions only upon a successful sale, a conflict of interest can arise, leading to misrepresentations that damage both franchisees and franchisors.

Washington and New York are the only other states with specific, mandated registration requirements for franchise brokers. They require brokers to register with state authorities as a means to protect potential investors from unethical sales tactics such as making unauthorized financial claims. Other states exploring similar action include Maryland, New Mexico and Virginia.