

California Legislation Could Inspire States to Enhance Franchise Protections

[Laura Michaels](#) Mar 28, 2025

A bill signed by California Gov. Gavin Newsom in 2024 addresses what Tal Grinblat called a “fairly serious problem with these brokers doing everything they can just to close the deal, and then they disappear.”

The franchisor, continued Grinblat, who represents franchisors and franchisees at California law firm Lewitt Hackman, “ends up holding the bag with all kinds of promises and misrepresentations.”



Changing that scenario is the aim of legislation that amended California’s Franchise Investment Law to regulate franchise brokers and franchise sales organizations. It requires them to register annually with the state’s Department of Financial Protection and Innovation and provide prospective franchisees with a Uniform Franchise Broker Disclosure Document.

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 third-party 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.

“It really makes the brokers on the hook,” said Grinblat, and will help ensure prospective franchisees have more information up front so they understand if a third-party seller has a financial incentive to steer them to a specific franchise. Washington and New York have similar laws.

Franchisors need to carefully vet their broker networks, Grinblat said, and he encouraged brands to handle the sales process themselves. “That way you have much more control over what is said to prospective franchisees,” he continued. “It’s better to have control over that than use a third party who, the concern is they will say anything to get the sale done and then the franchisor is the one who gets in trouble afterwards.”

Of note, the law hasn’t taken effect. It will either one year after the California legislature authorizes funding for the bill or July 1, 2026, whichever date is later.