SENATE RULES COMMITTEE AB 2039

Office of Senate Floor Analyses

(916) 651-4171

THIRD READING

Bill No: AB 2039

Author: Zbur (D), et al.

Amended: 8/13/26 in Senate

Vote: 21

SENATE JUDICIARY COMMITTEE: 13-0, 6/23/26

AYES: Umberg, Niello, Allen, Ashby, Caballero, Durazo, Laird, Reyes, Stern, Valladares, Wahab, Weber Pierson, Wiener

SENATE APPROPRIATIONS COMMITTEE: 7-0, 8/13/26

AYES: Cervantes, Seyarto, Cabaldon, Dahle, Grayson, Richardson, Wahab

ASSEMBLY FLOOR: 73-0, 5/21/26 - See last page for vote

SUBJECT: Attorneys

SOURCE: Consumer Attorneys of California

DIGEST: This bill seeks to enact several protections against fraud in the legal profession, including enhanced civil penalties for making unlawful solicitations of clients, regulating loans offered to clients by their attorneys, and whistleblower protections and anti-retaliation provisions for clients and employees of attorneys and law firms.

ANALYSIS: Existing law:

1) Establishes the State Bar Act and requires all attorneys who practice law in California to be licensed by the State Bar of California (State Bar). (Business and Professions Code [Bus. & Prof. Code] §§ 6000 et seq.)

2) Makes it unlawful for any person, in an individual capacity or in a capacity as a public or private employee, or for any firm, corporation, partnership or association to act as a runner or capper for any attorneys or to solicit any business for any attorneys in and about the state prisons, county jails, city jails, city prisons, or other places of detention of persons, city receiving hospitals,

city and county receiving hospitals, county hospitals, superior courts, or in any public institution or in any public place or upon any public street or highway or in and about private hospitals, sanitariums or in and about any private institution or upon private property of any character whatsoever. Makes it unlawful for any person to solicit another person to commit or join in the commission of a violation of any of these aforementioned things. (Bus. & Prof. Code § 6152(a).)

3) Prohibits an individual, partnership, corporation, association, or any other nongovernmental entity from operating for the direct or indirect purpose, in whole or in part, of referring potential clients to attorneys, and no attorney can accept a referral of such potential clients, unless certain requirements are met.

4) Provides that a written fee agreement is subject to the attorney-client privilege. (Bus. & Prof. Code § 6149.)

5) Requires all contracts for a consumer legal funding transaction to disclose material terms to the consumer. (Bus. & Prof. Code § 6252(a).)

6) Prohibits an employer, or any person acting on behalf of the employer, from making, adopting, or enforcing any rule, regulation, or policy preventing an employee from disclosing information to a government or law enforcement agency, to a person with authority over the employee, or to another employee who has authority to investigate, discover, or correct the violation or noncompliance, or from providing information to, or testifying before, any public body conducting an investigation, hearing, or inquiry, if the employee has reasonable cause to believe that the information discloses a violation of state or federal statute, or a violation of or noncompliance with a local, state, or federal rule or regulation, regardless of whether disclosing the information is part of the employee's job duties. (Labor [Lab.] Code § 1102.5(a).)

7) Prohibits an employer, or any person acting on behalf of the employer, from retaliating against an employee for disclosing information, or because the employer believes that the employee disclosed or may disclose information, to a government or law enforcement agency, to a person with authority over the employee or another employee who has the authority to investigate, discover, or correct the violation or noncompliance, or for providing information to, or testifying before, any public body conducting an investigation, hearing, or inquiry, if the employee has reasonable cause to believe that the information discloses a violation of state or federal statute, or a violation of or noncompliance with a local, state, or federal rule or regulation, regardless of

whether disclosing the information is part of the employee's job duties. (Lab. Code § 1102.5(b).)

This bill:

1) Prohibits an attorney from entering into a loan or financial assistance arrangement with a client unless all the agreement is in a separate written contract distinct from the retainer agreement and it contains specified disclosures and information.

2) Prohibits an attorney from charging the client interest on any loan or any funds that are advanced for any purpose, whether for case expenses or any other purpose, and prohibits all loan terms that materially impair a client's autonomy or litigation decisions.

3) Requires an attorney loaning a client funds, before the execution of such agreement, to advise the client in writing that the client may seek independent legal or financial advice, and to provide the client a cooling-off period of not less than five business days unless waived in writing after disclosure, as specified.

4) Prohibits an attorney from doing any of the following:

   a) conditioning legal strategy, settlement decisions, or continued representation on acceptance or repayment of a loan;

   b) using a loan to acquire ownership, control, or leverage over the client's cause of action beyond lawful attorney liens; and

   c) structuring financial assistance in a manner that interferes with independent professional judgment.

5) Provides that a violation of 1) through 4) may result in an attorney being liable for any of the following:

   a) restitution, rescission or reformation of the agreement;

   b) civil penalties in the amount of $15,000 per offense;

   c) injunctive relief; and

   d) disciplinary action by the State Bar of California, as specified.

6) Provides that any contractual term that violates 1) through 4) is void as contrary to public policy.

7) Provides that the provisions of 1) through 4) supplement and do not supersede existing ethical obligations governing business transactions with clients and shall be interpreted consistently with guidance from the American Bar Association and the California Rules of Professional Conduct.

8) Requires the State Bar of California to utilize summary disbarment procedures for any licensee upon the occurrence of either of the following:

   a) a felony conviction for violating the prohibition on capping or running; or

   b) a misdemeanor conviction for capping or running where the court finds, or the record establishes, that the licensee acted knowingly and for financial gain.

9) Prohibits, in any action commenced pursuant to 8), the State Bar of California from negotiating, recommending, or imposing an alternative form of discipline, including but not limited to reproval, suspension, diversion, or probation, in lieu of revocation.

10) Provides that the pendency of an appeal of a conviction of an offense specified in 8) does not prevent interim suspension pursuant to existing Rules of Procedure of the State Bar of California.

11) Provides that, notwithstanding existing civil and criminal sanctions for capping, a person, firm, partnership, association, or corporation violating the state's anti-capping statute is liable for a civil penalty of $25,00) per violation.

12) Provides that, for the purpose of assessing penalties pursuant to 11), every client retained and claim filed while engaging in the conduct of unlawful capping constitutes an individual violation.

13) Authorizes the Attorney General, a city attorney, or a county counsel to file an action for 11).

14) Prohibits an employer, law firm, attorney, or any person acting on their behalf from retaliating against an individual for disclosing information in good faith, or because the employer law firm or attorney believes the individual disclosed or may disclose information in good faith, where the individual has reasonable cause to believe that the information reveals a violation of the State Bar Act, the

California Rules of Professional Conduct, or any state or federal statute, rule, or regulation governing the conduct of attorneys.

15) Specifies, for the purpose of 14), a protected disclosure includes reports made to the State Bar of California, a court, a public prosecutor, or a person with authority to investigate or correct the violation, but that nothing in 14) relieves any attorney of their duty to maintain attorney-client privilege, as specified.

16) Clarifies that the attorney-client privilege does not prohibit any disclosure made pursuant to 14) if made by the client.

17) Provides that the protections of 14) extend to employees, former employees, applicants, independent contractors, vendors, clients, and any person with a professional relationship to an attorney or law firm provided that the information is disclosed in good faith.

18) Provides that for the purpose of 14) retaliation includes termination, demotion, discipline, threats, harassment, blacklisting, adverse contract actions, or any conduct that would deter a reasonable person from reporting misconduct, and that retaliation committed by an attorney or any person acting on their behalf shall constitute grounds for discipline by the State Bar of California.

19) Requires, when feasible, reporting mechanisms administered by the State Bar of California or authorized agencies to permit confidential or anonymous submissions consistent with existing whistleblower statutes.

Comments

Recent allegations against Downtown LA Law Group of illegal solicitation of clients in the $4 billion Los Angeles County childhood sexual abuse settlement have placed a spotlight on the legal profession. This bill seeks to strengthen consumer protection and bolster ethical accountability within California's legal profession. Following a year-long investigation, a Los Angeles Times article exposed claims that at least one Los Angeles-area law firm engaged in capping in an attempt to seek clients to sue Los Angeles County. The article presented evidence that a law firm representing almost 25% of plaintiffs in the Los Angeles County sex abuse settlement paid persons outside of a county social services office to sign up as clients alleging sexual abuse at the hands of county employees. (Ibid.) The firm denied the allegations to the Los Angeles Times. However, the State Bar of California recently charged one of the first founding partners with the unlicensed practice of law for recruiting out-of-state clients, with the promise of apparently unrealistic case valuations, in jurisdictions for which they did not hold a valid license.

In light if the above allegations, this bill seeks to add an additional enforcement mechanism to combat the issue of capping and running by providing a person, firm, partnership, association, or corporation violating the state's anti-capping statute is liable for a civil penalty $25,000 per violation. Every client retained and claim filed while engaging in capping would constitute an individual violation. The Attorney General, a city attorney or county counsel is authorized to bring an action to enforce this civil penalty. A prevailing plaintiff in an is entitled to an award of reasonable attorney's fees and costs.

This bill enacts whistleblower and anti-retaliation protections for law firm employees and clients that disclose unlawful conduct by attorneys. This provision seeks to ensure that consumer protections and antifraud statutes cannot be undermined by an overly broad claim of attorney-client privilege. This bill enacts specific provisions for handling privileged communications to ensure the protection of the client, the employees of a law firm, and the public. The whistleblower protections in this bill are intended to be as at least as strong as those under existing Section 1102.5 of the Labor Code and are in addition to those Labor Code protections.

This bill requires the State Bar of California to enact summarily disbarment procedures for any licensee convicted of a felony for capping or a misdemeanor conviction for capping where the court finds, or the record establishes, that the licensee acted knowingly and for financial gain. This bill requires the California Supreme Court to order disbarment upon receipt of a certified record of conviction. Under the bill, the State Bar is prohibited from offering settlements to such a licensee or imposing an alternative form of discipline.

This bill seeks to regulate loans offered to clients by their attorneys. Under existing law, there are few limitations on these loans and few consumer protections or disclosures to clients. This bill requires specific disclosures to clients before a loan agreement can be entered. The client is required to be provided a "cooling off" period to revoke a loan agreement and no interest can be charged on the loan or any funds advanced to the client or use a loan to acquire ownership, control, or leverage over the client's cause of action beyond lawful attorney liens. Under the bill, a violation of these provisions constitutes unlawful conduct. Remedies may include restitution, rescission or reformation of the agreement, civil penalties in the amount of $15,000 per offense, or injunctive relief. These provisions do not limit the disciplinary authority of the State Bar or any other remedies provided by law.

Any contractual provision that waives these protections is void as contrary to public policy. Failure by an attorney to comply with these provisions constitutes grounds for discipline by the State Bar of California.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

According to the Senate Appropriations Committee:

> Potentially significant costs to the courts to adjudicate new penalties depending on many unknowns, including the numbers of attorneys engaged in fraudulent activities and the factors unique to each case. An eight-hour court day costs approximately $10,500 based on the hourly rate of court personnel including at minimum the judge, clerk, bailiff, court reporter, jury administrator, administrative staff, and jury per-diems. While the courts are not funded on a workload basis, an increase in workload could result in delayed court services and would increase pressure to fund additional staff and resources. The FY 2026-27 Budget appropriated $70 million General Fund for this purpose (Trial Court Trust Fund, General Fund).
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> Minor costs to the Department of Justice (DOJ) for enforcement of the $25,000 per-violation civil penalty against attorneys engaged in capping. The AG is authorized but not required to bring these actions. To the extent DOJ pursues enforcement, costs would be partially offset by penalty recoveries and attorney's fees awards.
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> Likely minor costs to the State Bar of California for processing and administering confidential or anonymous reporting mechanisms for attorney misconduct. (Special fund)

SUPPORT: (Verified 8/13/26)

Consumer Attorneys of California (source)
Alameda Contra-costa Trial Lawyers Association
California Defense Counsel
California Employment Lawyers Association
Capitol City Trial Lawyers Association
Central Valley Trial Lawyers Association
Civil Justice Association of California (CJAC)
Consumer Attorneys of San Diego
Consumer Watchdog
Orange County Trial Lawyers Association
San Mateo County Trial Lawyers Association

United Policyholders

OPPOSITION: (Verified 8/13/26)

None received

ARGUMENTS IN SUPPORT: The author writes:

> Attorneys are expected to meet the highest standards of ethics and professional conduct. Their role is to advocate for their clients and ensure they receive due process, but unfortunately some attorneys have chosen to instead use their position for personal gain. Recent reporting has highlighted a wave of inappropriate attorney conduct including allegations that attorneys paid recruiters to find them clients, paid individuals to be their clients, and then instructed clients not to speak with members of the press about their representation. Unethical conduct results in claims being brought that are false or fraudulent which not only undermines our justice system, it also denies real victims their day in court by wasting the time and resources that should go to real cases.
>
> AB 2039 will increase accountability within the legal profession and ensure consistent enforcement of existing laws governing attorney misconduct. The bill does three key things: strengthens mandatory disbarment proceedings for attorneys who are guilty of paying or receiving compensation for client referrals, creates whistleblower protections for those who report attorney misconduct, and regulates attorney-client loans and financial advances. Together, these reforms will make sure attorneys are held accountable for misconduct and will reduce the number of fraudulent cases that take up time and resources in California courts.

The Consumer Attorneys of California, the sponsor of the bill, write in support stating:

> […] First, AB 2039 establishes clear and consistent disciplinary consequences for attorneys convicted of illegal client solicitation practices, commonly known as “capping.” California law already prohibits the payment or receipt of compensation in exchange for soliciting legal clients because such arrangements compromise the integrity of the attorney-client relationship. When client solicitations are driven by financial incentives rather than the needs and interests of the client, consumers may be directed to attorneys based on payment arrangements instead of the quality or suitability of legal representation.

Although capping is already a criminal offense under California law, disciplinary outcomes following criminal convictions have been inconsistent. AB 2039 corrects this problem by establishing mandatory disbarment for attorneys convicted of felony illegal capping and for misdemeanor capping violations committed knowingly for financial gain. The bill also prohibits alternative discipline—such as probation, suspension, or diversion—in place of disbarment. These provisions ensure that attorneys who engage in such illegal schemes cannot continue practicing law and eroding public trust.

Second, AB 2039 provides meaningful protections for individuals who report attorney misconduct. Employees, colleagues, and others who expose unethical practices often face retaliation, including termination, harassment, or professional blacklisting. The bill prohibits these retaliatory actions and provides legal protections for individuals who report misconduct in good faith. These safeguards are essential to encouraging transparency and ensuring that unethical conduct can be identified and addressed.

Third, the bill protects consumers by regulating attorney-client loans and financial advances. Clients seeking legal representation are frequently in financially vulnerable situations, particularly in cases involving injuries, lost income, or other hardships. While financial advances can provide short-term support, allowing attorneys to charge interest or fees on those advances creates the potential for exploitation and conflicts of interest.[…]

ASSEMBLY FLOOR: 73-0, 5/21/26
AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Connolly, Davies, DeMaio, Dixon, Elhawary, Ellis, Flora, Fong, Gabriel, Gallagher, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hart, Irwin, Jackson, Johnson, Kalra, Krell, Lee, Lowenthal, Macedo, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ransom, Michelle Rodriguez, Rogers, Blanca Rubio, Sanchez, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Ta, Tangipa, Valencia, Wallis, Ward, Wicks, Wilson, Zbur, Rivas
NO VOTE RECORDED: Arambula, Chen, Garcia, Hoover, Lackey, Ramos, Celeste Rodriguez

Prepared by: Amanda Mattson / JUD. / (916) 651-4113
8/17/26 10:47:38

**** **END** ****