Date of Hearing: March 24, 2026

ASSEMBLY COMMITTEE ON JUDICIARY
Ash Kalra, Chair
AB 2305 (Kalra) – As Amended March 16, 2026

As Proposed to be Amended

SUBJECT: CORPORATE INVESTMENT IN LITIGATION PRACTICE

KEY ISSUE: SHOULD CORPORATE INVESTORS BE PROHIBITED FROM INTERFERING WITH THE INDEPENDENT AUTHORITY OF CALIFORNIA ATTORNEYS TO UTILIZE THEIR LEGAL JUDGMENT AND ADOPT LITIGATION STRATEGIES THAT ADVANCE THEIR CLIENT'S INTERESTS?

SYNOPSIS

Traditional private equity funding involves a private lender buying a stake in a company and then using the equity firm's business acumen to help the company grow in return for significant returns to the equity firm. However, in recent years, the growth of the private lending industry has allowed private equity firms and hedge funds to "invest" in companies without taking a direct financial stake in the company. The rise of private lending, accordingly, has permitted private equity to "invest" in businesses that have traditionally been off-limits to private equity. For example, due to the strict legal obligations to put client needs first, the medical and legal professions had previously been outside the reach of private equity, as the law limited ownership of these firms to the licensed professionals who were obligated to put client needs above all else. However, now that private equity can "loan" these firms sizable sums of money without ever taking an ownership interest in the firm, private equity can now access these industries and influence their day-to-day professional decision making.

This measure seeks to limit corporate investments into the legal industry and protect the integrity of the attorney-client relationship. The measure, which is modeled after similar efforts to keep private equity out of the practice of medicine, would prohibit outside corporate money interests from directing litigation strategies. The bill would prohibit any contract giving litigation decision making authority to any outside interest and would authorize a client who was harmed by outside interference in their case to sue the attorney and corporate investor. The bill also strengthens the State Bar of California's ability to crackdown on the burgeoning practice.

This measure is supported by the Consumer Attorneys of California as well as several consumer advocacy organizations. The bill is supported, if amended to further crackdown on corporate influence in the practice of law, by the Civil Justice Association of California who seeks additional disclosures of the funding arrangements between law firms and private capital. As discussed in the analysis, the opaque nature of these financing agreements requires all stakeholders to further study the agreements in order to craft a legislative solution that cannot easily be side-stepped by bad actors. The author and stakeholders have agreed to continue these discussions, as all stakeholders share a common goal of stopping the growing influence of outside capital in California civil justice system. This bill has no recorded opposition.

SUMMARY: Prohibits a corporate investor in a legal practice from interfering with the independent judgment of attorneys. Specifically, **this bill**:

1) Prohibits a corporate investor involved in any litigation practice in this state from, directly or indirectly, interfering with or attempting to influence the professional judgment of a licensed attorney or litigant regarding any substantive litigation decision, including, but not limited to, any of the following:

    a) Determining which clients to represent;

    b) Determination of the scope of representation of any client;

    c) Determining the financial terms of any client representation;

    d) Determining legal strategy or theory of the case;

    e) Deciding whether to file, continue, or dismiss a claim or defense;

    f) Making decisions about a settlement offer, negotiation position, or acceptance of proposed resolution;

    g) Determining what evidence to present or how to conduct discovery; and

    h) Advising on appeals, procedural choices, or any litigation timing.

2) Prohibits a corporate investor involved in any litigation practice in this state from, directly or indirectly, exercising control or being delegated authority to control any of the following:

    a) Selecting or directing counsel based on profit maximization rather than client interest;

    b) Setting financial incentives tied to litigation outcomes that compromise attorney independence;

    c) Making decisions about litigation funding allocations or budgeting that may affect case strategy;

    d) Requiring litigation decisions be predicated on investor return metrics rather than client objectives and professional ethics.

3) Prohibits a corporate investor, or an entity it controls, from entering into any contract, agreement, or arrangement with a litigation practice if the contract would enable prohibited interference or control described in this bill.

4) Prohibits a contract between a litigation practice and a corporate investor from including a clause that does any of the following:

    a) Restricts an attorney or client from withdrawing from representation in the event of corporate interference;

    b) Prohibits an attorney or client from speaking publicly or reporting corporate interference to the State Bar or other authority; or

    c) Imposes financial penalties for reporting or resisting corporate influence.

5) Provides that any contractual provision that permits or facilitates prohibited interference or control pursuant to this bill is void, unenforceable, and against public policy.

6) Provides that a violation of any of the provisions of 1) through 5) constitutes cause for the imposition of discipline by the State Bar.

7) Provides that a violation of any of the provisions of 1) through 5) subjects an attorney or corporate investor to the following to be recovered in a civil action brought by the client:

   a) Statutory damages of ten thousand dollars ($10,000) per violation or three times the actual damages incurred by the client, whichever is greater;

   b) Attorney's costs and fees; and

   c) Injunctive or declaratory relief.

8) Defines the following terms:

   a) "Corporate investor" means any entity, including, but not limited to, a private equity group, hedge fund, investment firm, or any nonattorney corporation, with the primary purpose of raising or managing capital and which participates in a litigation practice through an ownership, financing, or management arrangement;

   b) "Control" includes, but is not limited to, directing, dictating, or influencing which clients to represent, the scope of client representation, the financial terms of client representation, litigation strategy, settlement decisions, litigation funding decisions, selection or management of counsel, or any other substantive legal determinations; and

   c) "Litigation practice" means the representation of parties in judicial, administrative, arbitration, or other adversarial dispute resolution settings by licensed attorneys.

9) Makes various findings and declarations about the pervasive influence of corporate investors on the practice of law.

EXISTING LAW:

1) Establishes the State Bar Act and provides for the licensure and regulations of attorneys practicing in California. (Business and Professions Code Section 6000 *et seq*.)

2) Requires an attorney who contracts to represent a client on a contingency fee basis to, at the time the contract is entered into, provide a duplicate copy of the contract, signed by both the attorney and the client, or the client's guardian or representative, to the plaintiff, or to the client's guardian or representative, as specified. (Business and Professions Code Section 6147 (a).)

3) Requires the contract outlines in 2) to contain the following terms:

   a) A statement of the contingency fee rate that the client and attorney have agreed upon;

b) A statement as to how disbursements and costs incurred in connection with the prosecution or settlement of the claim will affect the contingency fee and the client's recovery;

c) A statement as to what extent, if any, the client could be required to pay any compensation to the attorney for related matters that arise out of their relationship not covered by their contingency fee contract, including any amounts collected for the plaintiff by the attorney;

d) A statement that the fee is not set by law but is negotiable between attorney and client, as specified;

e) A statement that the rates set forth in that section are the maximum limits for the contingency fee agreement, and that the attorney and client may negotiate a lower rate. (*Ibid.*)

4) Provides that a written fee agreement is subject to the attorney-client privilege. (Business and Professions Code Section 6149.)

5) Prohibits, generally, an attorney licensed or otherwise authorized to practice in this state from sharing legal fees directly or indirectly with an out-of-state alternative business structure unless all of the following apply:

a) The attorney is also licensed in the state in which the alternative business structure is approved;

b) The fees are compensation for the provision of legal services in that state; and

c) The law of that state is controlling pursuant to Rule 8.5 of the California Rules of Professional Conduct or any successor rule. (Business and Professions Code Section 6156 (a).

6) Defines, for the purposes of 5), "alternative business structure" to mean any entity that provides legal services while allowing nonattorney ownership or decisionmaking authority. (Business and Professions Code Section 6156 (c)(1).)

7) Prohibits a lawyer or law firm from sharing legal fees directly or indirectly with a nonlawyer or with an organization that is not authorized to practice law, except as specified. (California Rules of Professional Conduct, Rule 5.4 (a).)

FISCAL EFFECT: As currently in print this bill is keyed non-fiscal.

COMMENTS: While much has been made about private equity firms' secretive loans to private companies and those loans potential impact on the stock market, these firms have also been quietly seeding money into professional practices that traditionally have not been accessible to large private investment firms. In recent years, private equity firms have sought to profit from medical and dental practices, as well as law firms. While private equity provides some worth in the broader business market, its attempt to push into private professional practices that are heavily regulated by codes of professional ethics is troubling as private equity's drive for profit threatens to undermine the relationship between trained professionals and their clients. Seeking

to address this growing problem in the medical field, last year the Legislature enacted both AB 1415 (Bonta) Chap. 641, Stats. 2025 and SB 351 (Cabaldon) Chap. 409, Stats. 2025, to reign in private equity in the medical profession. This bill, which is modeled in large part on provisions of those two measures, seeks to do the same for the legal profession. In support of this critical bill to protect Californians involved in the civil justice system, the author writes:

> Last year, California led the country when we passed AB 931 (Kalra, 2025) to prohibit for-profit corporations from owning law firms. But despite this safeguard, private equity interests continue to seek ways to creatively restructure their involvement in the legal industry and sidestep long-standing ethical prohibitions. Consequently, this risks litigation decisions, including whether to file a case, how to resolve the case, or to pursue a particular strategy, being influenced by investor return expectations rather than putting the interests of injured individuals or consumers first.
>
> To more broadly account for ever-changing financing structures, AB 2305 directly prohibits private equity firms, hedge funds, and other corporate investors from directing or influencing the practice of law. In doing so, this bill closes emerging loopholes, protects the independence of the legal profession, and preserves the integrity of the justice system.

Across professions California law has long required licensed professions to put professional judgement and client needs above all else. California law has long required licensed professionals – typically doctors, attorneys, dentists, and others with significant professional training – to put their client's needs and their professional judgement above all else when serving the public. For example, the Osteopathic Medical Board's Canon's of Ethics, as codified in the Business and Professions Code, mandates that doctors must first and foremost practice in accordance with a body of systemized and scientific knowledge and provide patients freedom to direct their care. (Business and Professions Code Sections 2190.5 and 125.6.) Similarly, the Rules of Professional Conduct dictate that attorneys must, "abide by a client's decisions concerning the objectives of representation and, reasonably consult with the client as to the means by which they are to be pursued." (Rules of Professional Conduct Rule 1.2 (a) and Business and Professions Code Section 6068.)

To ensure, to the extent possible, that financial motives do not override professional competence, many licensed professionals must organize their practices in a manner to ensure that professional judgement and client services are the dominant factor in business decision-making. For example, law firms in California cannot share legal fees directly or indirectly with a nonlawyer or with an organization that is not authorized to practice law. (Rules of Professional Conduct, Rule 5.4 (a).) While some exceptions exist for paying salaried non-attorney staff and other business obligations (i.e. rent, IT services, bank loans, etc…), the crux of Rule 5.4 is that attorneys must run their businesses with the interests of their clients at the front of mind. Throughout all regulated professions, California imposes significant penalties, including the potential loss of licensure, for putting profit above the needs of their client.

Private equity's insatiable need for profit raises ethical questions when these firms invest in professional corporations. According to the American Investment Council, private equity firms invest capital into businesses they believe have growth potential if proper financial support is rendered and business direction is provided. (*American Investment Council's Private Equity FAQs* available at: https://www.investmentcouncil.org/private-equity-faqs/.) Traditionally, this model functioned with investors finding innovative new start-ups to provide seed capital in

return for a share of the company's ownership. Once the company was capable of upscaling, the private equity firm would assist in taking the company public or selling its stake for a substantial financial gain. Because private equity only makes money when the company it invests in makes money, the traditional model frequently saw private equity firms providing significant operational business guidance to the firm in which it invested. For the purposes of a start-up managed by staff with strong technical skills but potentially lacking in business acumen, this model made sense; the technical experts develop the product and the equity experts direct the business growth.

However, in recent years, private equity is now moving into a private credit market. Rather than directly investing and managing a business, the private credit market provides sizable loans to established companies to permit them to grow and expand market share. As of June 2025, according to Moody's, there were upwards of $300 billion in outstanding loans from private-credit providers and an additional $340 billion in capital available for such loans. (Pritam Biswas & Arasu K. Basil, *Private credit strains ripple through Wall Street as investors grow wary*, Reuters (Mar. 16, 2026) available at: https://www.reuters.com/business/finance/private-credit-strains-ripple-through-wall-street-investors-grow-wary-2026-03-16/.) Because these "loans" are not traditional investments they face far less scrutiny than traditional equity investments even if, in practice, these loans open the door for corporate investors to dictate the professional decision making of another business entity.

The structure of these loans has also enabled private equity to expand the nature of business in which they invest. As noted above, the strict regulatory rules preventing fee sharing and investment in businesses operated by licensed professionals (i.e. medical practices and law firms) largely kept these practices out of the reach of private equity. Lawyers and medical professionals seeking to expand their businesses typically obtained lines of credit from banks. As traditional lending devices, these loans were structured to mitigate the bank's risk and offer the professional corporation structured interest rates and repayment plans. However, with the rise of private credit, professional corporations became ripe targets for private equity firms. Using private credit, the equity firms can now loan professional corporations significant sums of money. As a result of the greater risk to the equity firm posed by the larger loans, they can charge sizable interest rates, seek aggressive repayment timelines, and generally keep the details of the arrangement obscured from professional licensing regulators and financial regulators.

While the opaque nature of these loans makes determining their prevalence a difficult task, the issues surrounding Los Angeles County's $4 billion settlement of childhood sexual assault cases is shedding some light on the practice in California. In recent months, advertisements have blanketed Los Angeles County in search of plaintiffs in childhood sexual assault cases. In many cases these advertisements come from law firms with very little presence in California. For example, the Los Angeles Times reported that one of the largest advertising campaigns is emanating from the Sheldon Law Group, a Washington DC-based law firm whose website does not list any California attorneys on staff, and that according to records from the United States Securities and Exchange Commission has received loans from private investment firms. (Rebecca Ellis, *How private investors stand to profit from billions in L.A. County sex abuse settlements,* Los Angeles Times (Dec. 22, 2025) available at: https://www.latimes.com/california/story/2025-12-22/california-sex-abuse-lawsuits-investors.) The fact that advertisements appear to be targeting lower income neighborhoods across the county, and that many potential plaintiffs may have little to no connection with the juvenile detention facilities is raising ethical questions. (*Ibid.*)

While a law firm advertising for clients or obtaining private loans to spur firm growth is not unlawful, it is not without risk. For a law firm with aggressive loan repayment timelines, the need to repay the loan may cloud attorneys' professional judgment and open the door for outside influence in litigation strategy. The need to avoid defaulting on a loan may spur attorneys to encourage clients to settle cases prematurely and for lower settlement amounts. Even more troubling, the need to repay loans may entice some firms to go beyond legitimate advertisements and entice clients to sign up for large lawsuits, a practice known as capping. Indeed, although California-based and not clearly linked to private equity, the Downtown LA Law Group was accused of capping by, allegedly, offering county welfare recipients money in return for agreeing to sign-up as a client of the firm and sue Los Angeles County over sex abuse claims. (Rebecca Ellis, *In the biggest sex abuse settlement in U.S. history, some claim they were paid to sue*, Los Angeles Times (Oct. 2, 2025) available at: https://www.latimes.com/california/story/2025-10-02/settlement-story-ab218-sex-abuse.)

Due to the nature of private loans in the legal industry, the rapid growth of out-of-state law firms moving into California, and the known rise in fraudulent activities by attorneys, the Legislature has begun taking steps to further tighten ethical rules for attorneys. Last year, seeking to reign in some of the corporate influence on the practice of law, the Legislature enacted AB 931 (Kalra) Chap. 565, Stats, 2025, which prohibited fee sharing with out-of-state law firms that permitted non-attorneys to have an ownership stake in law firms. Furthermore, the Legislature enacted SB 37 (Umberg) Chap. 645, Stats. 2025, to strengthen penalties against capping. Both measures were designed to limit corporate investors' ability to undermine attorney decision making and stop attorneys from using aggressive, and potentially unethical, litigation tactics. However, neither bill fully addressed the growing use of private credit in the legal profession.

This bill adopts a model similar to the one utilized by AB 1415 and SB 351 to limit private equity's influence in the medical field and applies the model to the legal profession. The bill explicitly prohibits corporate investors, described as "any entity, including, but not limited to, a private equity group, hedge fund, investment firm, or any non-attorney corporation, with the primary purpose of raising or managing capital and which participates in a litigation practice through an ownership, financing, or management arrangement" from interfering with the professional judgment of a California attorney. The bill expressly prohibits the corporate investor from making decisions about client representation, settlement offers and litigation strategy, and appeals. The bill explicitly bans all contract terms authorizing a party, other than an attorney and their client, from making such decisions. The bill would make a violation an offense disciplinable by the State Bar of California and subject offending attorney and corporate investors subject to civil actions for damages from aggrieved clients.

Proposed technical amendments. As currently in print, the bill's enforcement provisions are drafted in a manner that insufficiently delineates the State Bar's disciplinary authority from the client's private right of action. Seeking to clarify the enforcement provisions of this bill, the author is proposing the following technical amendment to the proposed Business and Professions Code Section 6134.10 to read as follows:

> **6134.10.** ***(a)*** A violation of this article shall constitute cause for the imposition of discipline by the State Bar**.** ~~**and**~~

(b) ***In addition to any discipline imposed pursuant to (a), a violation of this article*** shall subject the attorney and the corporate investor to the following penalties ***to be recovered in an action brought by the client***:

(1) ~~**(a)**~~ Statutory damages of ten thousand dollars ($10,000) per violation or three times the actual damages incurred by the ***client*** ~~**consumer**~~, whichever is greater.

(2) ~~**(b)**~~ Attorney's costs and fees.

(3) ~~**(c)**~~ Injunctive or declaratory relief.

Ongoing stakeholder discussions seek to add loan disclosure provisions and further strengthen the bill's attempt to reign in private finance in the legal industry. This bill is supported, if amended, by the Civil Justice Association of California on behalf of the insurers and litigators who defend against many of the lawsuits filed by firms funded by corporate investors. The Civil Justice Association states:

> We believe the bill could go further to curb the abusive practices associated with third-party litigation funding by requiring transparency and enforceable accountability. At a minimum, the bill should require disclosure of litigation funding agreements to the court and all parties, identification of all funders with a financial interest in the case, and full disclosure to clients of the terms and risks of such agreements. Courts should have clear authority to review these arrangements and limit improper influence, and enforcement mechanisms must extend beyond self-reporting by potentially conflicted actors.

The author and proponents of this bill note that this comment is well taken. However, all stakeholders appear to concede that due to the opaque nature of these loan and funding agreements additional study and discussions are necessary in order to craft provisions that effectively promote transparency and regulatory oversight. For example, the Civil Justice Association of California's letter sought information on "funders with a financial interest in a case." Given that some of the private loans appear to simply go to the firm to help them "grow," and are not tied to a specific case, focusing on case-specific disclosures would make it too easy for a bad acting law firm to claim a loan is not case-specific, even if the corporate investor is using the broader loan to dictate litigation strategy in a specific case. Accordingly, the author and all stakeholders have agreed to continue discussions to make this bill as effective as possible at reigning in the pernicious practice of letting outside financial interests drive litigation in this state.

ARGUMENTS IN SUPPORT*:* This bill is supported by a coalition of plaintiff's attorneys and consumer advocates. In support of the bill their coalition letter states:

> We write in support of AB 2305, a measure that strengthens safeguards to ensure that legal representation and litigation decisions remain guided by the interests of clients and the professional judgment of licensed attorneys. The bill reinforces longstanding principles in California law that the practice of law must remain independent and free from improper outside influence. By establishing clear guardrails around outside control or financial interests that could interfere with litigation strategy or legal decision-making, AB 2305 helps protect consumers and preserve confidence in California's civil justice system.

> Maintaining the independence of attorneys and the integrity of the judicial process is essential to ensuring that individuals—particularly injured consumers and working families—can rely on fair and ethical representation. AB 2305 promotes transparency and accountability while reinforcing the ethical duties attorneys owe to their clients and the courts. For these reasons, we respectfully urge your AYE vote on AB 2305.

Additionally, the Civil Justice Association of California hope to be able to support this measure with additional amendments following ongoing stakeholder discussions. Further elaborating on the Civil Justice Association's position they write:

> The bill imposes restrictions on conduct, but does nothing to ensure that such conduct can be detected. It does not require third-party funders to identify themselves, disclose their financial interest, notify the court or opposing parties of their involvement, or even ensure that clients are fully informed of the existence and terms of these arrangements. As a result, courts may be asked to adjudicate disputes without knowing who is truly driving litigation strategy or settlement decisions. This lack of disclosure undermines judicial integrity, obscures conflicts of interest, and erodes public confidence in the civil justice system. Courts should have clear authority to review these arrangements and limit improper influence, and enforcement mechanisms must extend beyond self-reporting by potentially conflicted actors.

REGISTERED SUPPORT / OPPOSITION:

Support

Alameda Contra-Costa Trial Lawyers Association
California Employment Lawyers Association
Capitol City Trial Lawyers Association
Central Valley Trial Lawyers Association
Civil Justice Association of California (if amended)
Community Legal Services in East Palo Alto
Consumer Attorneys of California
Consumer Attorneys of Inland Empire
Consumer Attorneys of San Diego
Consumer Watchdog
Orange County Trial Lawyers Association
San Mateo County Trial Lawyers Association
United Policyholders

Opposition

None on file

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