Office of Senate Floor Analyses
(916) 651-4171

THIRD READING

Bill No: AB 2305
Author: Kalra (D), et al.
Amended: 6/1/26 in Senate
Vote: 21

SENATE JUDICIARY COMMITTEE: 12-0, 6/9/26
AYES: Umberg, Niello, Allen, Ashby, Caballero, Durazo, Laird, Reyes, Valladares, Wahab, Weber Pierson, Wiener
NO VOTE RECORDED: Stern

ASSEMBLY FLOOR: 68-0, 4/6/26 - See last page for vote

SUBJECT: Attorneys: corporate lenders

SOURCE: Consumer Attorneys of California

DIGEST: This bill 1) prohibits a corporate lender, or an entity it controls, from entering into any contract, agreement, or arrangement with a litigation practice if the contract would constitute the unauthorized practice of law; 2) specifies what types of actions by a corporate lender constitute the unauthorized practice of law; and 3) provides that these provisions are not to be construed to prohibit the practice of nonrecourse litigation finance and that the practice of nonrecourse litigation finance is not considered impermissible fee sharing if certain conditions are met.

ANALYSIS:

Existing law:

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

2) Requires all attorneys who practice law in California to be licensed by the California State Bar (State Bar). (Cal. Const., art. VI, § 9; Bus. & Prof. Code §§ 6000 et seq.)

3) 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 signed contract to the plaintiff, as specified, which must include the following:
   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, which may include any amounts collected for the plaintiff by the attorney;
   d) unless the claim is subject to the provisions of Section 6146[1], a statement that the fee is not set by law but is negotiable between attorney and client;
   e) if the claim is subject to the provisions of Section 6146, 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. (Bus. & Prof. Code § 6147(a).)

4) Prohibits attorneys from directly or indirectly sharing legal fees with an out-of-state alternative business structure, except as specified. (Bus. & Prof. Code § 6156.)

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

6) 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 specified requirements are met. (Bus. & Prof. Code § 6155.)

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[1] Section 6146 of the Business and Professions Code places limits on contingency fees agreements in connection with an action for injury or damage against a health care provider based upon such person's alleged professional negligence.

This bill:

1) Provides that a corporate lender doing any of the following constitutes the unauthorized practice of law:
   a) Interfering or attempting to influence the professional judgment of a licensed attorney or litigant regarding any substantive litigation decision, including;
      i. determination of which client to represent;
      ii. determination of the scope of representation of any client;
      iii. determining the financial terms of any client representation.
      iv. determining legal strategy or theory of the case;
      v. deciding whether to file, continue, or dismiss a claim or defense;
      vi. making decisions about a settlement offer, negotiation position; or acceptance of proposed resolution;
      vii. determining what evidence to present or how to conduct discovery; or
      viii. advising on appeals, procedural choices, or any litigation timing.
   b) Exercising control over, or being delegated authority for, any of the following litigation functions:
      i. selecting or directing counsel based on profit maximization rather than client interest;
      ii. setting financial incentives tied to litigation outcomes that compromise attorney independence;
      iii. making decisions about litigation funding allocations or budgeting that may affect case strategy; or
      iv. requiring that litigation decisions be predicated on investor return metrics rather than client objectives and professional ethics.

2) Prohibits a corporate lender, or an entity it controls, from entering into any contract, agreement, or arrangement with a litigation practice if the contract would constitute the unauthorized practice of law as described in 1).
   a) Any contractual provision that permits or facilitates prohibited interference or control is void, unenforceable, and against public policy.
   b) A contract between a litigation practice and a corporate lender cannot include a clause that does any of the following:

i. restrict an attorney or client from withdrawing from representation in the event of a nonlawyer engaging in the unlawful practice of law as described in 1);
ii. prohibit an attorney or client from speaking publicly or reporting a nonlawyer engaging in the unlawful practice of law as described in 1); or
iii. impose financial penalties for reporting or a nonlawyer engaging in the unlawful practice of law as described in 1).

3) Provides that a violation of these provisions constitutes a cause for discipline by the State Bar.

4) Provides that a violation of these provisions subjects the attorney and the corporate lender to the following penalties to be recovered in an action brought by the client:
   a) statutory damages of $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.

5) Provides that a violation of these provisions is not a crime.

6) Provides that these provisions are not to be construed to prohibit the practice of nonrecourse litigation finance and that the practice of nonrecourse litigation finance is not considered impermissible fee sharing provided the following conditions are met:
   a) the nonrecourse litigation finance contract contains a specific dollar amount or maximum dollar amount to be paid to the lawyer or law firm;
   b) the nonrecourse litigation finance contract return is limited to a multiple of the funded amount or a rate of interest thereon;
   c) the nonrecourse litigation finance contract expressly precludes use of money for the solicitation or acquisition of future clients or matters, the purchase of a lead for one or more potential clients, cases, or to seek the referral of those clients or cases; and
   d) the funding is provided solely for the fees or expenses of specific, identified legal representations that have been commenced or for which the lawyer or law firm has been retained, and not for the solicitation or acquisition of future clients or matters.

7) Provides that these provisions apply only to contracts entered into on and after January 1, 2027.

Comments

The ban on the corporate practice of law stems from common law and has been codified in statute. (See *People v. Cal. Protective Corp.* (1926) 76 Cal.App.354; Bus. & Prof. Code § 6125.) The public policy reason is for the protection of consumers and concerns regarding the inherent conflict of interest corporate ownership places on the duties attorneys owe to their clients. Corporations are motivated by profits, have no ethical duties to clients, and are not subject to regulatory oversight. Existing Rules of Professional Conduct prohibit law firms in California from sharing legal fees directly or indirectly with a nonlawyer or with an organization that is not authorized to practice law. (Rul. of Prof. Conduct 5.4 (a).) Last year, the Legislature enacted AB 931(Kalra, Chapter 565, Statutes of 2025) to prohibit attorneys from directly or indirectly sharing legal fees with an out-of-state alternative business structure (ABS) based on the concerns that an out-of-state ABS may have owners who are not licensed attorneys.

This bill prohibits a corporate lender from interfering or attempting to influence the professional judgment of a licensed attorney or litigant regarding any substantive litigation decision. The bill also prohibits a corporate lender from exercising control over, or being delegated authority for, certain litigation functions, including: selecting or directing counsel based on profit maximization rather than client interest; setting financial incentives tied to litigation outcomes that compromise attorney independence; making decisions about litigation funding allocations or budgeting that may affect case strategy; or requiring litigation decisions be predicated on investor return metrics rather than client objectives and professional ethics. Any contract entered into that violates these prohibitions is void and unenforceable.

The Consumer Attorneys of California, the source of the bill, write:

> Private equity investment in the legal industry has expanded rapidly in recent years. Although longstanding ethics rules prohibit non-lawyer ownership and fee-sharing with attorneys, investors have developed increasingly sophisticated structures designed to circumvent these protections. These arrangements can involve management services organizations (MSOs), affiliated litigation services companies, or other financial relationships that create leverage over law firms.

> These models create a dangerous risk that litigation decisions—including whether to file a case, how aggressively to pursue claims, and when to settle—may be influenced by investor return expectations rather than the best interests of clients. The core principle of attorney independence exists precisely to prevent these conflicts. When profit-seeking investors gain leverage over legal decision-making, the integrity of the justice system itself is threatened.

The bill provides that it is not to be construed to prohibit the practice of nonrecourse litigation finance. Additionally, the bill specifies that the practice of nonrecourse litigation finance is not considered impermissible fee sharing provided certain conditions are met, including, among others, that the nonrecourse litigation finance contract expressly precludes use of money for the solicitation or acquisition of future clients or matters, the purchase of a lead for one or more potential clients, cases, or to seek the referral of those clients or cases.

A violation of the bill constitutes a cause for discipline by the State Bar. It also authorizes a client to bring an action against an attorney and the corporate lender who violate these provisions for statutory damages of $10,000 per violation or three times the actual damages incurred by the client, whichever is greater, attorney's costs and fees, and injunctive or declaratory relief.

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

SUPPORT: (Verified 6/10/26)

Consumer Attorneys of California (source)
Civil Justice Association of California

OPPOSITION: (Verified 6/10/26)

None received

ARGUMENTS IN SUPPORT: 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.

The Consumer Attorneys of California write in support stating:

AB 2305 safeguards the independence of the legal profession by prohibiting private equity firms, hedge funds, and other corporate lenders from directing or influencing the practice of law. When a Californian hires an attorney, litigation decisions—including case strategy, representation, and resolution—must be made solely by the attorney and client, not by lenders seeking financial returns. AB 2305 closes emerging loopholes that allow corporate lenders to exert indirect influence over litigation practices through complex financial or operational arrangements.

ASSEMBLY FLOOR: 68-0, 4/6/26
AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Bains, Berman, Boerner, Bonta, Bryan, Calderon, Carrillo, Castillo, Chen, Connolly, Davies, DeMaio, Dixon, Elhawary, Ellis, Flora, Fong, Gallagher, Garcia, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Hart, Hoover, Irwin, Jackson, Johnson, Kalra, Krell, Lee, Lowenthal, Macedo, McKinnor, Nguyen, Ortega, Pacheco, Papan, Patel, Pellerin, Petrie-Norris, Ramos, Ransom, Michelle Rodriguez, Rogers, Blanca Rubio, Sanchez, Schiavo, Sharp-Collins, Solache, Soria, Stefani, Ta, Tangipa, Valencia, Wallis, Ward, Wicks, Wilson, Zbur, Rivas
NO VOTE RECORDED: Ávila Farías, Bauer-Kahan, Bennett, Caloza, Gabriel, Harabedian, Lackey, Muratsuchi, Patterson, Quirk-Silva, Celeste Rodriguez, Schultz

Prepared by: Amanda Mattson / JUD. / (916) 651-4113
6/12/26 12:50:11

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