

CONCURRENCE IN SENATE AMENDMENTS

AB 2305 (Kalra)

As Amended August 17, 2026

Majority vote

SUMMARY

Prohibits a corporate investor in a legal practice from interfering with the independent judgment of attorneys.

Major Provisions

- 1) Prohibits, *and deems such conduct to be the unauthorized practice of law, a corporate legal funder from doing* 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 *lender* 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) *Clarifies that a litigation practice cannot contract with a corporate legal funder to impose specified restrictions on attorneys or the client.*

- 4) 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 constitute the unauthorized practice of law as described in this bill.*
- 5) Prohibits a contract between a litigation practice and a corporate **lender** 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.
- 6) Provides that any contractual provision that permits or facilitates prohibited interference or control pursuant to this bill is void, unenforceable, and against public policy.
- 7) *Clarifies that nothing in the bill is to be construed to prohibit the practice of nonrecourse litigation finance, and notwithstanding any other laws or regulations, and that the practice of nonrecourse litigation finance does not constitute impermissible fee sharing or the California Rules of Professional Conduct provided the following 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.*
- 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;
 - c) "Corporate legal funder" to mean a business entity, no matter how it is legally structured, labeled, organized, or operated, created for, and with the primary purpose of

raising or managing capital and which is involved in a litigation practice through an ownership, service, financing, or management arrangement or agreement.

- d) *"Litigation practice" means the representation of parties in judicial, administrative, arbitration, or other adversarial dispute resolution settings by licensed attorneys.*
- e) *"Nonlawyer" means any person or entity that is not licensed by, or permitted by, the State Bar to practice law in the State of California; and*
- f) *"Nonrecourse litigation finance" to mean the provision of capital to a litigation practice, the repayment of which is contingent on the successful resolution of a specific, identified legal representation.*

Senate Amendments

- 1) *Clarify that the bill is not intended to prohibit the practice of nonrecourse litigation finance so long as specified criteria is met.*
- 2) *Clarify that specific activities conducted by a corporate legal funder are not simply prohibited by the bill but constitute the unauthorized practice of law.*
- 3) *Adopt several clarifying definitions.*

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) Chapter. 641, Statutes. 2025 and SB 351 (Cabaldon) Chapter. 409, Statutes. 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.

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 judgment 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.

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 *lender* from making decisions about client representation, settlement offers and litigation strategy, and appeals. The bill also bans all contract terms authorizing a party, other than an attorney and their client, from making such decisions. The bill makes a violation an offense disciplinable by the State Bar of California and subject offending attorney and corporate investors to civil actions for damages from aggrieved clients.

According to the Author

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.

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.

Arguments in Opposition

None on file

FISCAL COMMENTS

None

VOTES:

ASM JUDICIARY: 12-0-0

YES: Kalra, Macedo, Bauer-Kahan, Bryan, Connolly, Dixon, Harabedian, Pacheco, Papan, Sanchez, Stefani, Zbur

ASSEMBLY FLOOR: 68-0-12

YES: 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

ABS, ABST OR NV: Ávila Farías, Bauer-Kahan, Bennett, Caloza, Gabriel, Harabedian, Lackey, Muratsuchi, Patterson, Quirk-Silva, Celeste Rodriguez, Schultz

SENATE FLOOR: 40-0-0

YES: Allen, Alvarado-Gil, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Cervantes, Choi, Cortese, Dahle, Durazo, Gonzalez, Grayson, Grove, Hurtado, Jones, Laird, Limón, McGuire, McNerney, Menjivar, Niello, Ochoa Bogh, Padilla, Pérez, Reyes, Richardson, Rubio, Seyarto, Smallwood-Cuevas, Stern, Strickland, Umberg, Valladares, Wahab, Weber Pierson, Wiener

UPDATED

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CONSULTANT: Nicholas Liedtke / JUD. / (916) 319-2334

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