

SENATE JUDICIARY COMMITTEE
Senator Thomas Umberg, Chair
2025-2026 Regular Session

AB 931 (Kalra)
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Hearing Date: July 1, 2025
Fiscal: No
Urgency: No
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SUBJECT

State Bar Act: consumer legal funding

DIGEST

This bill creates a regulatory framework for the litigation financing industry. The bill prohibits attorneys from directly or indirectly sharing legal fees with an out-of-state alternative business structure, except as specified.

EXECUTIVE SUMMARY

Generally speaking, litigation financing is the practice in which a third party unrelated to an underlying lawsuit provides funds to a plaintiff in return for a portion of any financial recovery resulting from the case. This allows plaintiffs the financial ability to pay bills and other expenses while they wait for their anticipated award. This financing is non-recourse, meaning that the lender only collects if the lawsuit is ultimately successful. However, if the case is successful, the plaintiff is usually required to pay back the loan and a pre-negotiated rate of interest.

Concerns have arisen that many of these litigation financing contracts are predatory and usurious, leaving plaintiffs with a fraction of their ultimate settlement or judgement. Issues have also been raised about potential conflicts of interest between consumers' attorneys and the lending companies. Critics argue that this type of lending disproportionately hurts vulnerable communities who have no other financial safety net to rely on. Given their unique nature, this type of financing is not thoroughly regulated, although some states outright ban such lending under a legal doctrine called champerty. This bill seeks to bring some needed oversight to the industry by erecting clear guardrails and implementing conflict of interest provisions.

The bill also prohibits any attorney licensed in this state, and associated entities, from directly or indirectly sharing legal fees with an out-of-state "alternative business structure," essentially an entity that provides legal services while allowing nonattorney

ownership, management, or decisionmaking authority. Much of the opposition is focused on this portion of the bill, which seeks to codify an existing California Rule of Professional Conduct.

The bill is sponsored by the Consumer Attorneys of California. It is supported by a variety of consumer and legal organizations, including the Western Center on Law and Poverty. It is opposed by various business and insurance associations, including the California Trucking Association and the California Hispanic Chambers of Commerce.

PROPOSED CHANGES TO THE LAW

Existing law:

- 1) Establishes the State Bar Act and provides for the licensure and regulations of attorneys practicing in California. (Bus. & Prof. Code § 6000 et seq.)
- 2) Requires all attorneys who practice law in California to be licensed by the 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. This may include any amounts collected for the plaintiff by the attorney.
 - d) Unless the claim is subject to the provisions of Section 6146, 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) Provides that a written fee agreement is subject to the attorney-client privilege. (Bus. & Prof. Code § 6149.)
- 5) 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.)

This bill:

- 1) Establishes the California Consumer Legal Funding Act.
- 2) Defines the relevant terms, including:
 - a) "Charges" means the amount of money to be paid to the consumer legal funding company by or on behalf of the consumer, above the funded amount provided by or on behalf of the company to a consumer pursuant hereto. Charges include all administrative, origination, underwriting, or other fees, including interest, no matter how denominated. Those charges shall not exceed 36 months from the funding date.
 - b) "Consumer legal funding" means a nonrecourse transaction in which a consumer legal funding company purchases and a consumer assigns to the company a contingent right to receive an amount of the potential proceeds of a settlement, judgment, award, or verdict obtained in the consumer's legal claim.
 - c) "Consumer legal funding company" means a person or entity that enters into a consumer legal funding contract with a consumer. A consumer legal company shall not include any of the following:
 - i. An immediate family member of the consumer.
 - ii. A bank, lender, or other special purpose entity that is engaged in either of the following:
 1. Provides financing to a consumer legal funding company.
 2. Receives a security interest or transfer of rights from a consumer legal funding company.
 - iii. An attorney or accountant who provides services to a consumer.
- 3) Requires all consumer legal funding transactions to be codified in a written contract that meets the following requirements:
 - a) The contract shall be drafted in plain English such that the average consumer can read and understand the terms of the contract without having to obtain the assistance of a professional. If it was negotiated in a language other than English, it shall also be provided to the consumer in that language.
 - b) All contract terms shall be contained in the agreement when first presented to the consumer.
 - c) The contract shall contain a right of rescission allowing the consumer to cancel the contract without penalty or further obligation if, within five business days after the funding date, the consumer returns all funds disbursed by the consumer legal funding company.

- d) The contract requires the consumer to initial receipt of every page of the agreement.
 - e) The contract contains a statement that there shall be no fees or charges to be paid by the consumer other than what is disclosed in the contract.
 - f) The contract contains a statement of the maximum amount the consumer may be obligated to pay under the contract other than in a case of material breach, fraud, or misrepresentation by or on behalf of the consumer.
 - g) The contract contains a clear statement of how charges, including any applicable fees, are incurred or accrued.
- 4) Requires the contract, to be valid, to contain a written acknowledgement by an attorney retained by the consumer attesting to the following:
 - a) The attorney has reviewed the disclosures specified in Section 6252 with the consumer.
 - b) The attorney is being compensated on a contingency basis pursuant to a written agreement.
 - c) All proceeds of the legal claim will be disbursed through the attorney's client trust account or a separate settlement fund established to receive the proceeds of the legal claim on behalf of the consumer.
 - d) The attorney agrees to disburse funds from the legal claim in accordance with the contract and take any steps necessary to ensure that the terms of the litigation funding contract are fulfilled.
 - e) A statement that the attorney has not received a referral fee or other consideration from the consumer legal funding company in connection with the contract and that the attorney will not receive future fees or consideration from the legal funding company.
- 5) Provides that a contract for a consumer legal funding transaction shall remain valid and enforceable in the event the consumer terminates the attorney who made the required attestation.
- 6) Prohibits these contracts from imposing a prepayment penalty on a consumer.
- 7) Requires all contracts for a consumer legal funding transaction to disclose material terms to the consumer, including all of the following:
 - a) Clear and conspicuous language, on the first page of the contract, detailing all of the following:
 - i. The funded amount to be paid to the consumer by the consumer legal funding company upon the completion of litigation.
 - ii. An itemization of any one-time charges.
 - iii. The maximum total amount to be assigned by the consumer to the consumer litigation funding company, including the funded amount and all charges.

- iv. A repayment schedule, including the dates in which all payments are due to the consumer litigation funding company.
 - b) A disclosure stating, "Consumer's right to cancellation: You may cancel this contract without penalty or further obligation within five business days after the funding date if you return to the consumer legal funding company the full amount of the disbursed funds."
 - c) A disclosure stating that the consumer legal funding company shall have no role in deciding whether, when, or for what dollar amount a legal claim may be settled. However, the company may seek updated information about the status of the legal claim.
- 8) Provides that all contracts shall require the consumer or the consumer's attorney to notify the consumer legal funding company of the outcome of the legal claim, including, but not limited to, all settlements, verdicts, or other means of dispute resolution.
- 9) Requires the contracted amount to be paid to the consumer legal funding company be a predetermined amount based upon intervals of time from the funding date through the resolution date, and shall not be determined as a percentage of the recovery from the legal claim.
- 10) Prohibits a consumer legal funding company from doing any of the following:
- a) Paying or offering to pay commissions, referral fees, or other forms of consideration to any attorney, law firm, or any of their employees for referring a consumer to the company.
 - b) Accepting any commissions, referral fees, rebates, or other forms of consideration from an attorney, law firm, or any of their employees.
 - c) Intentionally providing a consumer materially false or misleading information regarding its products or services.
 - d) Referring, in furtherance of legal funding, a customer or potential customer to a specific attorney, law firm, or any of their employees. This does not include referrals to an attorney referral service operated by a local bar association of the State Bar of California.
 - e) Providing funding to a consumer who has previously assigned or sold portions of the consumer's right to proceeds from the consumer's legal claim without first making payment to satisfy that assignment if the consumer legal funding company knew or should have known that the consumer had assigned or sold a portion of their rights to the proceeds of the consumer's legal claim.
 - f) Receiving any right to, or making, any decisions with respect to the conduct of the underlying legal claim or any settlement or resolution thereof.
 - g) Attempting to obtain a waiver of any remedy or right by the consumer, including, but not limited to, the right to trial by jury.

- h) Paying or offering to pay for court costs, filing fees, or attorney's fees either during or after the resolution of the legal claim, using funds from the consumer legal funding transaction.
 - i) Offering consumer legal funding on the condition that a consumer that is represented by counsel terminate that representation and adopt counsel recommended by the consumer legal funding company.
 - j) Knowingly assisting a lawyer or law firm that is enticing or intends to entice a consumer to bring a claim that the company knows or has reason to know is fabricated or otherwise not brought in good faith.
- 11) Provides that any legal funding company that engages in conduct that is prohibited in the preceding paragraph is liable for all of the following:
 - a) Automatic termination of the consumer legal funding contract.
 - b) Statutory damages not to exceed \$10,000 per violation or three times the actual damages incurred by the consumer, whichever is greater.
 - c) Attorney's costs and fees.
 - d) Injunctive or declaratory relief.
- 12) Makes the contingent right to receive an amount of the potential proceeds of a legal claim assignable by a consumer. Notwithstanding any other law, only attorney's liens related to the legal claim, which is the subject of the consumer legal funding or Medicare or other statutory liens related to the legal claim, shall take priority over any lien of the consumer legal funding company.
- 13) Prohibits an attorney, or the attorney's immediate family, retained by a consumer from having a financial interest in a consumer legal funding company offering consumer legal funding, and from providing consumer legal funding directly to a consumer.
- 14) Provides that any attorney who has referred the consumer to the consumer's retained attorney shall not have a financial interest in a consumer legal funding company offering consumer legal funding to that consumer.
- 15) Prohibits an attorney retained by a consumer from disclosing any privileged information to a legal funding company without the written consent of the consumer. Disclosing information to a legal funding company at the consumer's request shall not otherwise void the attorney-client privilege.
- 16) Provides that an attorney shall not compensate, promise, or give anything of value to a person for the purpose of recommending or securing the services of the attorney or their firm, except that an attorney may do the following:
 - a) Pay the reasonable costs of advertisements or communications permitted by Rule 7.2 of the California Rules of Professional Conduct, or any successor rule.

- b) Pay the usual charges of a legal services plan or a qualified attorney referral service operating in accordance with the rules established by the state bar.
 - c) Pay for a law practice operating in accordance with Rule 1.17 of the California Rules of Professional Conduct, or any successor rule.
 - d) Refer clients to another attorney or a nonlawyer professional pursuant to an arrangement not otherwise prohibited by the California Rules of Professional Conduct or this chapter.
 - e) Offer or give a gratuity to a person having made a recommendation resulting in the employment of the attorney or the attorney's law firm, provided that the gift or gratuity was not offered or given in consideration of any promise, agreement, or understanding that such a gift or gratuity would be forthcoming or that referrals would be made or encouraged in the future.
- 17) Subjects any attorney who violates the preceding conflict of interest provisions to discipline by the State Bar of California.
- 18) Prohibits any attorney licensed or otherwise authorized to practice in this state, from directly or indirectly sharing legal fees 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.
 - c) The law of that state is controlling pursuant to Rule 8.5 of the California Rules of Professional Conduct or any successor rule.
- 19) Provides that the above does not apply to any fee sharing arrangement if the following conditions are satisfied:
- a) The arrangement for the sharing of legal fees was ordered or approved by a court of competent jurisdiction, including the establishment or distribution of a common benefit fund in coordinated, consolidated, or multidistrict litigation.
 - b) The manner in which the legal fees are to be allocated is subject to judicial oversight and determined to be fair, reasonable, and necessary for the administration of justice.
- 20) Subjects an attorney that violates the previous provision to the following:
- a) Statutory damages of \$10,000 per violation or three times the actual damages incurred by the consumer, whichever is greater.
 - b) Attorney's costs and fees.
 - c) Injunctive or declaratory relief.
- 21) Provides that a violation of the fee sharing prohibition shall also constitute cause for the imposition of discipline by the State Bar of California.

- 22) Defines “alternative business structure” as any entity that provides legal services while allowing nonattorney ownership or decisionmaking authority. It does not include nonprofit organizations.

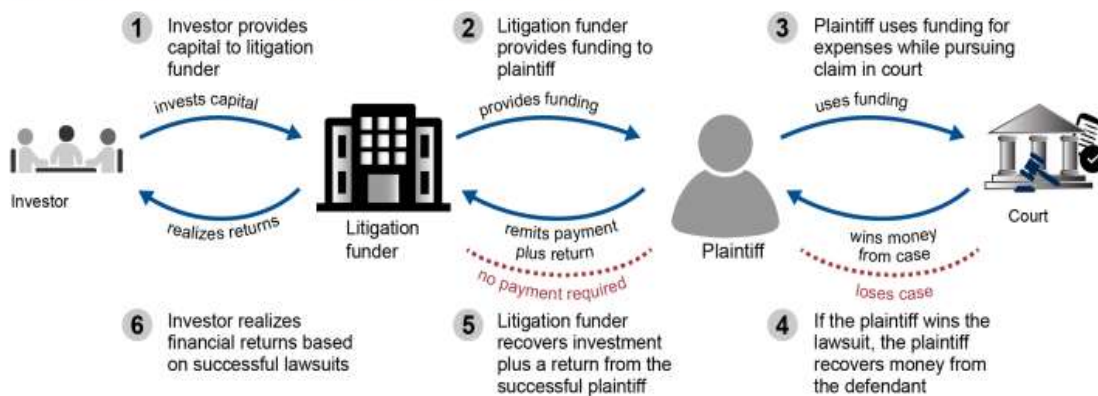
COMMENTS

1. Concerns in the litigation financing industry

While litigation financing has been around in some countries for much longer, it has gained increased prominence in the United States in the last decade or so. A report from the United States Government Accountability Office (GAO) on third-party litigation financing provides a useful primer:

Third-party litigation financing is an arrangement where a funder that is not a party to a lawsuit agrees to provide funding to a litigant (typically a plaintiff) or law firm in exchange for an interest in the potential recovery in a lawsuit (see figure). Plaintiffs do not have to repay the funding if their lawsuit is not successful. This funding generally falls into two categories: commercial and consumer funding. Commercial arrangements are between funders and corporate litigants or law firms. For example, a funder agrees to provide funding for legal or business expenses in exchange for a portion of the court award if the plaintiff wins. The funding is typically in the millions of dollars. Consumer arrangements are between a funder and an individual, such as the plaintiff in a personal injury case. The funder provides a relatively small amount (typically under \$10,000) to the plaintiff, who uses it for living expenses.

Figure 1: Example of Third-Party Litigation Financing for Plaintiffs



Source: GAO. | GAO-23-105210

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Like other types of financing and consumer loans, there are upsides and drawbacks from this type of service. Especially in the consumer context, where a consumer is injured and out of work, money may be extremely tight until a settlement or judgment

¹ *Third-Party Litigation Financing Market Characteristics, Data, and Trends* (Dec. 2022) GAO, <https://www.gao.gov/assets/gao-23-105210.pdf>. All internet citations are current as of June 11, 2025.

is awarded. Given the timelines for civil litigation, especially cases making it to trial, some consumers just cannot make ends meet without tapping into this potential award. The attractiveness from their perspective is clear. They can get money now to pay off piling debts with no risk should the case ultimately prove to be unsuccessful. However, as noted by the author and supporters, the ultimate price can be much steeper than many initially realize.

An investigate segment on *60 Minutes* put a spotlight on the largely opaque and under-regulated industry.² As it summarizes: “Litigation funding can help in cases where otherwise the little guy who’s suing would just get crushed or lowballed by defendants with deep pockets. Problem is – this market is exploding with nearly no rules or oversight.” The report highlighted a case brought by a farmer suing for breach of contract. He had won a massive settlement but when the defendant appealed, he found himself unable to keep his business running until he contracted with one of the bigger players in this market, Burford Capital. While the financing helped bridge the gap, he ended up having to pay 100 percent of his financing back, in addition to the amount financed.

This type of rate would be unlawful in other consumer lending contexts, but because this non-recourse financing does not fall within existing regulatory structures, there are no rules. The CEO of Burford admits that in some cases his company walks away with more money than the funded plaintiff. They justify the excessive return by pointing to the risk they take should the case end up unsuccessful and they are unable to collect. However, critics point out that these companies have teams of lawyers that investigate cases before financing. In fact, as the Wall Street Journal puts it, litigation finance has become “the new hot law job.”³

Additional concerns are raised when such financing companies attempt to interfere with the litigation or pressure clients into early settlement or costly trial. The potential conflict with the attorney-client relationship is apparent. The Standing Committee on Professional Responsibility and Conduct of the State Bar of California issued a formal opinion on alternative litigation funding and these potentially thorny issues:

Litigation funding, like a third-party payor, introduces a third party with its own interests into the lawyer-client relationship, posing risks to the lawyer’s independent professional judgment and the relationship of confidence between the lawyer and client. The duty of loyalty and independent professional judgment require the lawyer to act in the client’s

² Lesley Stahl, *Litigation Funding: A multibillion-dollar industry for investments in lawsuits with little oversight* (December 18, 2022) CBS News 60 Minutes, <https://www.cbsnews.com/news/litigation-funding-60-minutes-2022-12-18/>.

³ Sara Randazzo, *The New Hot Law Job: Litigation Finance* (July 5, 2018) The Wall Street Journal, <https://www.wsj.com/articles/the-new-hot-law-job-litigation-finance-1530783000>.

interest at all times and particularly where the client's interest might depart from the funder's.

The lawyer's independent professional judgment may also be impaired if the funding arrangement imposes limitations on the how the case is litigated. Some ethics committees have suggested that there could be circumstances in which a funding agreement imposes such limitations on the attorney's judgment that the lawyer might not be able to competently represent the client. ABA Commission on Ethics 20/20, Informational Report to the House of Delegates 23 (2012); Ohio Sup. Ct. Ethics Opn. No. 2012-3 (lawyer must ensure the alternative litigation funding company providing nonrecourse loan to client "does not attempt to dictate the lawyer's representation of the client"). Others have suggested that such arrangements are permissible with client consent. Assn. of the Bar of the City of N.Y. Com. on Prof. and Jud. Ethics, Formal Opn. No. 2011-02 (client may "agree to permit a financing company to direct strategy or other aspects of a lawsuit" and the lawyer is not prohibited from acceding to the funder's direction as long as the client consents); cf. ABA Formal Opn. No. 01-421 (lawyer hired by insurer to represent insureds may not comply with insurer's guidelines or directives relating to representation if these would "impair materially the lawyer's independent professional judgment").

COPRAC does not reach a general conclusion that any particular degree of control is per se unethical. However, it is clear that where the funder has some degree of control of the litigation, the lawyer has an obligation to advise the client about the impact of such limitations on the lawyer's representation. Rule 1.4; see also ABA Formal Opn. No. 01-421 (where lawyer represents insured and the insurer imposes limitations on the representation, lawyer must communicate limitations to the client early in the representation).

A lawyer's duties are not dictated by the funding contract but by the lawyer's ethical duties.⁴

This bill attempts to place clear guardrails around this industry to rein in the most egregious conduct while allowing the often critical tool to remain available to consumers in need without interfering with the consumer's legal representation.

⁴ *Formal Opinion Interim No. 14-0002 Alternative Litigation Funding* (2020) COPRAC, <https://www.calbar.ca.gov/Portals/0/documents/publicComment/2019/14-0002-Alternative-Litigation-Funding.pdf?ver=2019-10-11-111840-073>.

2. The California Consumer Legal Funding Act

This bill establishes the California Consumer Legal Funding Act, a legal framework for the funding of consumers engaged in litigation in this state. “Consumer legal funding” is defined as a nonrecourse transaction in which a consumer legal funding company purchases and a consumer assigns to the company a contingent right to receive an amount of the potential proceeds of a settlement, judgment, award, or verdict obtained in the consumer’s legal claim. The bill requires all such transactions to be codified in written contracts that meet a series of requirements. This includes that it be drafted in plain English and contain all material terms of the contract, as provided. Such contracts must contain a clear statement of how charges are incurred or accrued and indicate the maximum amount the consumer may be obligated to pay. If the contract was negotiated in a language other than English, a copy of the contract in the language shall be provided to the consumer.

The bill requires these contracts to be acknowledged by the consumer’s attorney, attesting to a series of facts, including that the attorney has reviewed it, that the attorney is being paid on a contingency basis, and that the attorney has not received a referral fee or other consideration from the consumer legal funding company in connection with the contract and that the attorney will not receive future fees or consideration from the company.

Consumers must be afforded a right to cancel the contract without penalty within five days and be notified of this right. Consumer legal funding companies are prohibited from playing any role in deciding whether and how to settle a relevant claim. The contracted amount must be a predetermined amount, as specified, and cannot be determined as a percentage of the proceeds from the legal claim. The bill also lists out a series of prohibited actions for legal funding companies. This includes a prohibition on paying, offering, or accepting any commissions, referral fees, or other forms of consideration to or from attorneys or law firms. These companies are also prohibited from referring customers to specific attorneys or firms or requiring customers to switch attorneys.

The bill provides that an attorney shall not compensate, promise, or give anything of value to a person for the purpose of recommending or securing the services of the attorney or the attorney’s law firm. However, there are various exceptions including that an attorney may offer or give a gratuity to a person having made a recommendation resulting in the employment of the attorney or the attorney’s law firm, provided that the gift or gratuity was not offered or given in consideration of any promise, agreement, or understanding that such a gift or gratuity would be forthcoming or that referrals would be made or encouraged in the future. Some concerns were raised about the lack of limitations on these gifts or gratuities. In response, the author has agreed to remove this exception and to continue to work with the Committee and stakeholders on a more refined exception.

To avoid stacked debt, a company cannot provide funding to a consumer who has previously assigned or sold portions of the consumer's right to proceeds from their legal claim without first making payment to satisfy that assignment if the consumer legal funding company knew or should have known that fact. The bill makes clear that funding companies cannot provide consumers false information or assist an attorney in enticing a consumer to bring a claim that they have reason to know is fabricated or otherwise not in good faith.

If a consumer legal funding company violates the above, the contract is automatically terminated and the company is liable for the greater of up to \$10,000 in statutory damages per violation, or three times the actual damages. The company is also responsible for paying attorney's fees and costs and the consumer may seek injunctive or declaratory relief.

To combat potential conflicts of interest, the bill prohibits the consumer's attorney or the immediate family of the attorney to have a financial interest in the consumer legal funding company that is funding the consumer. Additionally, the attorney and their family cannot provide the funding directly. To prevent further conflicted dealings, any attorney that has referred the consumer to an attorney ultimately retained by the consumer must also not have a financial interest in the legal funding company. To prevent improper communications, the consumer's attorney is prohibited from sharing any privileged information with the legal funding company without the written consent of the consumer. Such consensual disclosure does not void the attorney-client privilege. Any violations of these conflict of interest provisions subject an attorney to discipline by the State Bar of California.

According to the author:

[R]ecognizing that the litigation finance industry, when behaving in an ethical manner, provides a vital service to plaintiffs, this bill adopts regulations that will enable the industry to operate while better protecting consumers. AB 931 establishes legal and ethical guidelines to protect consumers who must seek out litigation financing loans. This bill ensures that consumers are better informed about the terms of their loan agreement, can rescind agreements signed under duress, and protects the sanctity of the attorney-client relationship by prohibiting litigation funding companies from dictating legal strategy. By permitting both consumers and the State Bar of California to enforce the provisions of this bill, Californians will be better protected from nefarious practices in the litigation financing industry.

Writing in support, the California Employment Lawyers Association argues:

Litigation funding can serve as a financial lifeline for those injured due to another party's negligence, allowing them to cover essential expenses such as rent, medical bills, and daily necessities. However, the absence of regulation has allowed predatory practices to thrive, leaving plaintiffs exposed to opaque contract terms and deceptive lending practices. Many individuals rely on these advances to survive. They may seek out litigation financing because they are in desperate financial situations due to injuries or other hardships. Unfortunately, without legal safeguards, too many consumers find themselves trapped in financially devastating agreements.

AB 931 addresses a pressing need for oversight and regulation in a largely unregulated industry that has significant impacts on vulnerable plaintiffs.

A coalition of industry associations, including the American Property Casualty Insurance Association, write in opposition:

We appreciate that AB 931 recognizes that hedge funds are controlling cases in California and believes that while AB 931 contains some positive provisions, the legislation currently lacks important consumer protection and transparency requirements that many other states have implemented, and so APCIA must oppose and request that these deficiencies in the bill be addressed. . . .

Many states provide additional consumer protections that are not included in the current version of AB 931. California consumers should be afforded such protections. TPLF agreements with consumers often charge excessive interest rates that can leave borrowers with little to no recovery in their lawsuit. Some states limit the interest and other fees that consumers can be charged under TPLF arrangements. Given the widely acknowledged danger of excessive charges in this type of lending arrangement, these protections are essential to make AB 931 effective in protecting consumers.

This opposition coalition also argues that "AB 931 should not prioritize attorney and consumer legal funding liens over consumers' interests." In response, the author has agreed to an amendment that removes the lien priority provision.

3. Sharing legal fees

Rule 5.4 of the California Rules of Professional Conduct governs financial and similar arrangements between lawyers and nonlawyers. The rule generally 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 with a series of listed exceptions. A lawyer is also prohibited from practicing with, or in the form of, a professional corporation or other organization authorized to practice law for a profit if any of the following apply:

- A nonlawyer owns any interest in it, except as specified.
- A nonlawyer is a director or officer of the corporation or occupies a position of similar responsibility in any other form of organization.
- A nonlawyer has the right or authority to direct or control the lawyer's independent professional judgment.

This bill prohibits any attorney licensed in this state from directly or indirectly sharing legal fees with an out-of-state "alternative business structure," except as provided. An "alternative business structure" is defined as any entity that provides legal services while allowing nonattorney ownership or decisionmaking authority. The bill excludes nonprofit organizations from this definition. Currently only a few jurisdictions allow for alternative business structures, including Arizona and Utah.

The bill also exempts any fee sharing arrangement where:

- The arrangement for the sharing of legal fees was ordered or approved by a court of competent jurisdiction, including the establishment or distribution of a common benefit fund in coordinated, consolidated, or multidistrict litigation.
- The manner in which the legal fees are to be allocated is subject to judicial oversight and determined to be fair, reasonable, and necessary for the administration of justice.

Attorneys or law firms that violate this prohibition are subject to statutory damages of \$10,000 per violation or three times the actual damages incurred by the consumer, whichever is greater, as well as attorney's costs and fees. A court may award injunctive or declaratory relief. Attorneys and law firms are also subject to discipline by the State Bar of California.

According to the author:

[T]his bill codifies the protections of Rule 5.4 of the California Rules of Professional Conduct by prohibiting California attorneys from splitting fees with out-of-state law firms that share revenues with non-attorneys, including large hedge funds. Rule 5.4 is designed to ensure that an attorney's legal judgment and not profit, drive legal decisions. This bill will ensure that other state's less protective attorney regulations cannot be used as a loophole to take advantage of California consumers.

Much of the opposition is focused on this latter section of the bill ("Section 2"). A number of affinity chambers of commerce assert this prohibition on partnering with

alternative business structures will hurt low-income Californians. The Los Angeles Metropolitan Hispanic Chamber of Commerce argues:

Section 2 would block innovative legal partnerships that offer lower-cost services and better reflect the cultural and financial realities of our community.

The State Bar of California's recently released *2024 Justice Gap Study* confirms the crisis: nearly 75% of households report experiencing at least one civil legal problem each year, but Californians seek help for only 18% of those issues. That gap is even more pronounced for small business owners navigating complex permitting, employment, and contractual matters. These challenges are compounded for Latino entrepreneurs, many of whom are first-generation business owners working without institutional support or generational capital.

Rather than expanding affordable legal access, Section 2 would close off one of the few flexible models that underserved business owners rely on—especially in communities that already face language, cost, and trust barriers in navigating the legal system.

A coalition of other chambers of commerce, including the California African American Chamber of Commerce, write in similar opposition:

Section 2 would prohibit California attorneys from sharing fees with or co-counseling alongside out-of-state law firms with non-lawyer ownership, even when those firms are entirely legal, regulated, and practicing per the rules of their home jurisdictions.

This change would:

- **Cut off access to affordable legal services** that many small and minority-owned businesses rely on, particularly in areas like immigration, intellectual property, regulatory compliance, and contract disputes.
- **Limit innovation** in legal service delivery helps reduce costs and expand access for underserved entrepreneurs.
- **Disproportionately harm communities of color, veterans, and immigrant-owned businesses** – groups that already face steep challenges in navigating California's legal and regulatory landscape.

We are not advocating for California to adopt a non-lawyer ownership model. Instead, we urge the Legislature to **respect the validity of other**

states regulated legal practices and preserve California attorneys' ability to partner with those firms to serve vulnerable and under-resourced clients.

Access to justice should not be denied based on corporate structure. For these reasons, we must oppose AB 931 **unless Section 2 is amended or removed.**

Legal Access Advocates LLC writes in opposition:

At a time when the justice gap in California remains urgent and well-documented, lawmakers should be working to expand, not restrict, options for cost-effective legal services. AB 931, even as amended, would make California an outlier that would make it the only state to prohibit lawyers from collaborating with out-of-state co-counsel solely due to firm structure, isolating California from national progress on legal innovation.

Writing in support, a coalition of legal aid organizations rebuts some of these assertions:

Opponents to the bill may cite regulation of alternative business structures as stifling innovation that would expand access to justice. While it has been an aim of legal reforms, such as the allowing of alternative business structures in Arizona, to encourage innovation that would expand access, we have yet to see that impact on the low-income communities that legal aid serves. A June 2025 study conducted by Stanford Law School's Deborah L. Rhode Center on the Legal Profession, *Legal Innovation After Reform: Five Years of Data on Regulatory Change*, examined these reforms in Arizona and Utah. According to that study, none of the registered alternative business structures in Arizona seek to serve low-income individuals. At the time of the report there were four entities in Utah that aimed to serve low-income people, and all those entities are nonprofits, now exempt from regulation by this bill. We are confident that no existing work that expands access to low-income people will be inhibited by this bill, and the exception for nonprofits will allow for future innovation.

The Consumer Attorneys of California, the sponsor of the bill, argue the provision is necessary to uphold the integrity of the legal profession:

AB 931 also codifies existing State Bar rules that prohibit fee sharing between lawyers and non-lawyers, aligning statutory law with California Rule of Professional Conduct 5.4. This ensures that California attorneys remain accountable to their clients — not to corporate shareholders or private investors.

California Professional Rule of Conduct 5.4, states: “A lawyer or law firm* shall not share legal fees directly or indirectly with a nonlawyer or with an organization that is not authorized to practice law.” AB 931 specifically prohibits California attorneys from sharing fees with out-of-state Alternative Business Structures, thereby protecting the integrity of the attorney-client relationship in California.

Unfortunately, Arizona has taken a riskier approach by repealing fee-sharing prohibitions and allowing private equity ownership of legal service providers. They have set up a system that allows corporations, such as private equity firms or hedge funds, to wholly or partly own companies that are called Alternative Business Structures (ABS). Private equity firms freely acknowledge they regard ownership or investment in these companies as a way to maximize profit and diversify their portfolios. They owe no fiduciary duty to legal clients; instead, they are beholden to their shareholders. The regulations in Arizona that say that the corporate owners cannot influence the practice of law in these firms are an empty promise when the ABS is controlled by hedge fund or private equity money. In contrast, California has stood strong for consumer protection by rejecting this lax approach in 2022 enacted state bar legislation, AB 2589, which said, in part, California must:

- (1) Prioritize protecting individuals, especially those in need of legal assistance, from unscrupulous actors, including those actors seeking to do business in the legal field, above all else.
- (2) Prioritize increasing access to justice for persons who qualify for legal assistance from qualified legal services organizations or from State Department of Social Services-funded immigration legal services.
- (3) Exclude corporate ownership of law firms and splitting legal fees with nonlawyers, which has historically been banned by common law and statute due to grave concerns that it could undermine consumer protection by creating conflicts of interests that are difficult to overcome and fundamentally infringe on the basic and paramount obligations of attorneys to their clients.

Therefore, the degradation of ethical standards has already been soundly rejected in California and AB 931 builds on that consumer protection mission.

In response to these concerns, the author has agreed to an amendment that would sunset this provision on January 1, 2030. This will provide an opportunity for the Legislature to revisit the issue as the landscape has more fully developed.

SUPPORT

Consumer Attorneys of California (sponsor)
Alameda Contra-costa Trial Lawyers Association
California Alliance for Retired Americans
California Employment Lawyers Association
California Rural Legal Assistance Foundation, Inc.
Capitol City Trial Lawyers Association
Central Valley Trial Lawyers Association
Coalition of California Welfare Rights Organizations
Consumer Attorneys Association of Los Angeles
Consumer Attorneys of California
Consumer Federation of California
Consumer Watchdog
Consumers for Auto Reliability and Safety
Legal Aid Association of California
Marin Trial Lawyers Association
Orange County Trial Lawyers Association
San Francisco Trial Lawyers Association
San Joaquin County Trial Lawyer's Association
San Mateo County Trial Lawyers Association
United Policyholders
Western Center on Law & Poverty, Inc.

OPPOSITION

Alliance of Californians for Community Empowerment (ACCE) Institute
American Legion Auxiliary Department of California
American Property Casualty Insurance Association
Asian Law Alliance
Building Owners and Managers Association of California
Calasian Chamber of Commerce
California African American Chamber of Commerce
California Asian Pacific Chamber of Commerce
California Black Chamber of Commerce
California Business Properties Association
California Business Roundtable
California Chamber of Commerce
California Hispanic Chambers of Commerce
California League of United Latin American Citizens
California Trucking Association
Civil Justice Association of California (CJAC)
Commercial Real Estate Development Association, NAIOP of California
Cooperative of American Physicians, INC.

Family Business Association of California
Legal Access Advocates, LLC
Los Angeles Metropolitan Hispanic Chamber of Commerce
Madera Coalition for Community Justice
National Association of Mutual Insurance Companies
OCA Sacramento - Asian Pacific American Advocates
Orange County Hispanic Chamber of Commerce
Personal Insurance Federation of California
Responsive Law
Solano County Black Chamber of Commerce Political Action Committee

RELATED LEGISLATION

Pending Legislation: AB 743 (Michelle Rodriguez, 2025) regulates the business of lawsuit financing and requires lawsuit financiers to be licensed by the Commissioner of Financial Protection and Innovation and to maintain surety bonds of at least \$250,000. It includes lawsuit financing within the definition of “commercial loan” in existing law. AB 743 is currently in the Senate Banking and Financial Institutions Committee.

Prior Legislation: SB 581 (Caballero, 2023) would have required litigation financiers to register with the Secretary of State’s office. It would have placed various consumer protections on the practice, including a cap on interest rates and a restriction on securitizing such loans. Financiers would have been prohibited from receiving or exercising any right to direct, control, or otherwise influence the conduct of the consumer’s legal claim or action, including any settlement or resolution thereof. SB 581 died in the Senate Appropriations Committee.

PRIOR VOTES:

Assembly Floor (Ayes 59, Noes 0)
Assembly Judiciary Committee (Ayes 12, Noes 0)
