

## **Assembly Bill No. 2305**

### **CHAPTER 393**

An act to add Article 7.5 (commencing with Section 6134) to Chapter 4 of Division 3 of the Business and Professions Code, relating to attorneys.

[Approved by Governor September 20, 2026. Filed with  
Secretary of State September 20, 2026.]

#### **LEGISLATIVE COUNSEL'S DIGEST**

AB 2305, Kalra. Attorneys: corporate legal funders.

Existing law, the State Bar Act, provides for the licensure and regulation of attorneys by the State Bar of California (State Bar), a public corporation governed by a board of trustees. Existing law makes it a misdemeanor for a person who is not a member of the State Bar, or authorized to practice law, to practice law in this state.

Existing law regulates, among other things, fee agreements, legal advertising and referral services, the sale of financial products to a client, and the allowable forms of organization of a law practice, including a law corporation. Existing law, until January 1, 2030, prohibits an attorney licensed or otherwise authorized to practice in the state from sharing legal fees directly or indirectly with an out-of-state entity that provides legal services while allowing nonlawyer ownership or decisionmaking authority, except as specified. Existing law authorizes the board of trustees, with the approval of the Supreme Court to formulate and enforce rules of professional conduct on all licensees. A violation of these provisions may result in disciplinary action against a licensed attorney or other remedies.

This bill would make a corporate legal funder interfering with a substantive litigation decision or exercising control over a litigation function, an unauthorized practice of law. The bill would prohibit a litigation practice from contracting with a corporate legal funder for specific terms, including restricting an attorney or client from withdrawing from representation in the event of a nonlawyer engaging in the unauthorized practice of law under these provisions.

This bill would prohibit a corporate legal funder, or an entity it controls, from entering into any contract, agreement, or arrangement with a litigation practice if the contract would constitute an unauthorized practice of law under these provisions, and would further prohibit and void a contract or terms that would permit or facilitate an unauthorized practice of law under these provisions, as specified.

This bill would provide that these provisions shall not be construed to prohibit the practice of nonrecourse litigation finance and that the practice of nonrecourse litigation finance shall not constitute impermissible fee sharing under the above-described provisions or the rules of professional

conduct, as provided. The bill would deem a violation of these provisions by an attorney as grounds for the imposition of discipline by the State Bar and subject an attorney and the corporate legal funder to statutory or actual damages, attorney's fees and costs, and other relief, as specified. The bill would define terms for these purposes.

This bill would exempt violation of its provisions from the criminal prohibitions.

This bill would specify that its provisions only apply to contracts entered into on and after January 1, 2027.

*The people of the State of California do enact as follows:*

SECTION 1. Article 7.5 (commencing with Section 6134) is added to Chapter 4 of Division 3 of the Business and Professions Code, to read:

Article 7.5. Corporate Investment in Litigation Practice

6134. (a) The Legislature finds and declares that licensed attorneys and litigants must retain full autonomy over litigation decisions and strategies, free from improper control or interference from corporate legal funders, private equity firms, hedge funds, or other nonlawyer entities whose primary interest is financial return rather than the interest of the injured individual. The intent of this article is to safeguard the integrity of the judicial process, ensure advocacy remains ethically sound and in the best interest of the individual, and prohibit corporations from controlling or improperly influencing litigation decisions or outcomes.

(b) This article is intended to ensure that litigation decisions are exclusively in the hands of licensed attorneys to safeguard against nonlicensed individuals or entities exerting influence or control over the delivery of legal services in this state.

6134.2. For purposes of this article, the following definitions shall apply:

(a) "Corporate legal funder" means 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.

(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) "Litigation practice" means an attorney, law firm, or other professional association that represents parties in judicial, administrative, arbitration, or other adversarial dispute resolution settings by licensed attorneys.

(d) "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.

(e) “Nonrecourse litigation finance” means the provision of capital to a litigation practice, the repayment of which is contingent on the successful resolution of specific, identified legal representations.

6134.4. (a) It shall constitute the unauthorized practice of law, in violation of Section 6125, for a corporate legal funder to do any of the following:

(1) Interfere or attempt to influence the professional judgment of a licensed attorney or litigant regarding any substantive litigation decision, including any of the following:

- (A) Determination of which client 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.
- (H) Advising on appeals, procedural choices, or any litigation timing.

(2) Exercise control over, or be delegated authority for, any of the following litigation functions:

(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.

(b) A litigation practice shall be prohibited from contracting with a corporate legal funder to do any of the following:

(1) Restrict an attorney or client from withdrawing from representation in the event of a nonlawyer engaging in the unauthorized practice of law described in this article.

(2) Prohibit an attorney or client from speaking publicly or reporting a nonlawyer engaging in the unauthorized practice of law described in this article.

(3) Impose financial penalties for reporting or resisting a nonlawyer engaging in the unauthorized practice of law described in this article.

6134.6. The corporate form of a litigation practice, including, but not limited to, a law firm partnership, professional corporation, or limited liability company, shall not affect the applicability of this article.

6134.8. (a) A corporate legal funder, or an entity it controls, shall not enter into any contract, agreement, or arrangement with a litigation practice if the contract would constitute the unauthorized practice of law described in this article.

(b) Any contractual provision that permits or facilitates the unauthorized practice of law pursuant to this article is void, unenforceable, and against public policy.

6134.10. Nothing in this article shall be construed to prohibit the practice of nonrecourse litigation finance so long as it does not otherwise constitute the unauthorized practice of law as set forth in this article. Notwithstanding any other laws or regulations, the practice of nonrecourse litigation finance shall not constitute impermissible fee sharing under Section 6156 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.

(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.

6134.12. (a) A violation of this article by an attorney shall be grounds for the imposition of discipline by the State Bar.

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

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

(2) Attorney's costs and fees.

(3) Injunctive or declaratory relief.

(c) Notwithstanding Section 6126, a violation of this article is not a crime.

6134.14. This article shall only apply to contracts entered into on or after January 1, 2027.