Two New California Laws Tighten Standards for Attorney Fees and Law Firm Marketing

California legal practices will need to adapt to new statutory requirements affecting core business practices in 2026. Two laws that take effect on Jan. 1 that will require law firms to review their business structures, contracts, referral arrangements and compliance protocols are Assembly Bill 931 and Senate Bill 37. AB 931 transforms fee-sharing standards with out-of-state or nonlawyer-owned entities, while SB 37 expands restrictions on attorney advertising, solicitation and lead generation.

Though the bills address different aspects of legal practice (business structure and fees on one hand and marketing and solicitation on the other), the combined effect is that law firms must adopt more rigorous internal compliance, documentation and risk-mitigation practices or chance statutory penalties, civil liability and disciplinary action.

To navigate these changes successfully, firms need a clear understanding of what AB 931 and SB 37 require, how they intersect with existing rules, and the practical steps needed to ensure compliance in 2026 and beyond.

AB 931: Alternative business structures and fee-sharing rules

As technology evolves and the legal marketplace becomes increasingly interconnected, law firms are operating on a more global scale. States like Arizona and Utah allow some nonlawyer ownership of firms or alternative business structures (ABS). For example, the Big Four accounting firm **KPMG** recently opened an independent legal subsidiary in Arizona following the enactment of the new regulation. The idea is to make the legal business model even more profitable, scalable and sustainable.

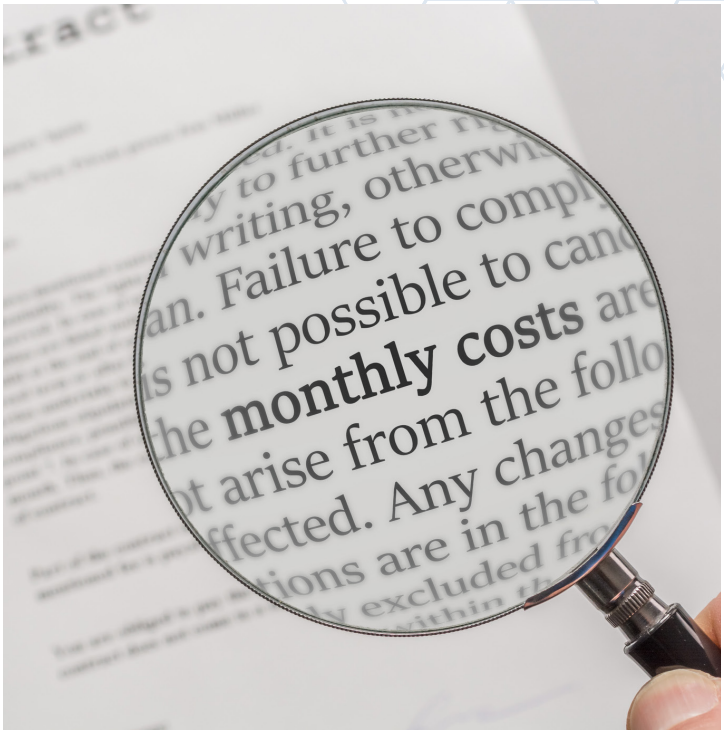
As a direct response to these goals, California lawmakers have enacted AB 931, which restricts out-of-state ownership models and prohibits attorneys licensed in California from sharing legal fees, whether directly or indirectly, with nonlawyers.

This approach aligns with California's long-standing resistance to non-lawyer ownership. The legislature, Supreme Court and state bar have repeatedly **rejected proposals** to permit nonlawyer ownership or ABS pilots, citing risks to client protection, ethical independence and attorney-client privilege. **Critics of Arizona's structure** are concerned that ABS entities with significant private-equity ownership appear to operate as litigation funders. AB 931 seeks to protect consumers from outside investors influencing lawyers' professional judgment.

The prohibition on sharing legal fees applies to contracts entered into on or after Jan. 1, 2026, until Jan. 1, 2030. Violating AB 931 can trigger serious consequences, including statutory damages of $10,000 per violation or three times actual damages, whichever is greater and cause for discipline by the State Bar of California.

What law firms need to do

The most common potential compliance issues California law firms will face are in **management services organizations** (MSOs) and referral and lead-generation agreements. If compensation is tied to revenue or contingency outcomes, then the structure violates AB 931. Firms will want to remove any language that implies fee sharing with nonlawyer entities. Flat-fee arrangements, where the company is paid a fixed amount regardless of the legal fees the firm earns, are the safest option for firms.



Firms should audit all existing and planned relationships with out-of-state firms, referral networks, lead-generation vendors and other nonlawyer entities to ensure compliance. National or multistate firms should consider creating alifornia-compliant entities for California matters or severing cross-jurisdiction ABS relationships.

If the firm participates in court-approved fee-sharing or common-benefit arrangements, ensure that documentation is thorough and that allocations are judicially approved and recorded.

SB 37: Advertising, solicitation and lead generation under new scrutiny

On the advertising side of business, SB 37 expands upon the California Business & Professions Code by modernizing attorney advertising laws. The new law redefines "advertisement" to include any written, recorded or electronic communication directed to the public or a limited group that promotes legal services — widening the scope far beyond traditional ads.

SB 37 prohibits misleading, deceptive or false statements about a lawyer's or firm's skills, experience, reputation or past results, including references to awards or rankings obtained through fee-based or pay-to-play schemes such as paying for a "Top Employment Lawyer" badge.

It requires all legal ads to conspicuously list at least one licensed California lawyer, firm or referral service and a bona fide office location. This is especially important for digital, lead-gen, aggregator or joint-advertising campaigns, such as "Top Lawyer" badges that firms pay to use in marketing materials.

Before SB 37, most misleading advertising allegations were addressed through state bar discipline. Starting in 2026, however, firms may face civil claims, statutory-damage suits and plaintiff-side scrutiny of lead-generation arrangements. The law gives consumers who were misled by an advertisement or improperly solicited the right to sue an attorney or firm for statutory damages, injunctive relief or declaratory relief, after completing the state bar's review process. A civil action may proceed if the state bar determines that substantial evidence of a violation exists and the advertiser fails to withdraw the advertisement promptly or withdraws it and later rebroadcasts it. Importantly, a violation does not require proof that the lawyer intended to mislead, only that the advertisement was objectively likely to deceive a reasonable consumer.

Ramifications for lead generation, runners/cappers and referral services

While runners and cappers, individuals or companies that solicit clients for attorneys in places such as hospitals, jails or other vulnerable settings, were already prohibited under existing California law, SB 37 adds a new private right of action and broadens the definition of what constitutes misleading attorney advertising, significantly increasing exposure beyond state bar discipline.

Third-party lead-generation firms, marketing agencies, aggregator platforms and referral services must now carefully reassess their business models.

Common practices like "buy-a-lead," "pay-per-referral" or "mass solicitation via phone or digital channels" may trigger civil actions, especially where the lead-generation entity is paid based on case results or volume.

Firms that rely on aggressive marketing tactics, such as flashy websites that promote "best lawyer" claims, mass-tort lead pickup or wrongful-arrest lead lines, must conduct a full compliance audit. Even existing ads may need to be withdrawn, corrected or reapproved under revised internal compliance protocols.

Checklist for Compliance:

Viewed together, AB 931 and SB 37 represent California's broader trend toward tightening lawyer regulation in areas long considered business decisions, such as revenue models, vendor relationships, digital marketing, intake funnels and out-of-state collaboration. Firms must now treat these decisions as compliance-driven, not merely operational.

Use this checklist to make sure your firm is in compliance with these two new laws:

- ☐ Audit all relationships with out-of-state firms, ABS, MSOs and referral vendors and restructure as needed.
- ☐ Revise all agreements to remove fee-sharing or referral-fee language and ensure that flat-fee models are implemented where necessary.
- ☐ Audit all marketing materials (websites, social media, billboards, advertisements, TV/radio); remove misleading statements or exaggerations and include required disclosures.
- ☐ Review and refine vendor agreements. Terminate models that are pay-per-lead or per-success.
- ☐ Develop compliance policies, prepublication ad review and documentation protocols to ensure all marketing materials follow SB 37.
- ☐ Train attorneys and staff on new laws.
- ☐ Maintain documentation and audit trails. Set aside resources for potential civil claims and engage outside counsel if needed.

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How CEB can help

As firms adjust to this new regulatory landscape, robust, California-specific guidance and compliance tools are vital.

CEB offers:

- Up-to-date annotated statutes and case law summaries for AB 931 and SB 37
- Sample engagement-letter templates, vendor/MSO agreement language and advertising-compliance checklists
- Continuing legal education and practice guides explaining ethical obligations and compliance best practices
- Webinars and roundtables on marketing compliance, vendor due diligence and risk-management planning

To leverage CEB's resources, sign up for a free trial and get direct access to guidance tailored to California law.

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