

Update from Sacramento
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Protecting Consumers and the Civil Justice System

COMPREHENSIVE ETHICS REFORM PACKAGE ADDRESSES "CAPPING" AND PRIVATE EQUITY INVESTMENT IN LAWSUITS

The 2025-26 legislative session brought unprecedented challenges to consumer rights in California. We faced an initiative fight with Uber, public entity tort reform, attempts to weaken and even eliminate the rights of survivors of childhood sexual assault and survivors of wildfires, consumer privacy rights, homeowner rights, and the list goes on. Simultaneously, we faced serious problems in our legal professions, which called for ethics reform. Over two years, Consumer Attorneys of California worked to strengthen legal ethics, protect attorney independence, combat illegal solicitation and deceptive advertising, and preserve access to justice for all.

That work resulted in four significant new laws on ethics: AB 931 (Kalra), SB 37 (Umberg), AB 2039 (Zbur), AB 2305 (Kalra). Together, they reflect CAOC's commitment to ensuring that California's legal system protects consumers, holds bad actors accountable, and keeps clients – not outside investors or financial interests – at the center of the attorney-client relationship.

A comprehensive ethics reform package

Recent investigative reporting has highlighted troubling practices in the legal industry, including allegations of paid solicitation or "capping." We've also faced heighted scrutiny on misleading attorney advertising and outside investors seeking greater control over litigation as private equity attempts to insert themselves into the legal system. Over the last two years, CAOC sponsored and helped enact four laws addressing these emerging threats. **AB 931 (Kalra)**, which took effect January 1, 2026, addressed financial arrangements with out-of-state Alternative Business Structures that permit nonlawyer ownership or decision-making. The law affirms the existing prohibition on California attorneys from directly or indirectly sharing legal fees with these entities, subject to specified exceptions, and provides meaningful private right of action enforcement.

SB 37 (Umberg), also effective January 1, 2026, modernized California's attorney-advertising laws and strengthened enforcement against deceptive advertising, illegal lead generation, and unlawful solicitation. Importantly, SB 37 provided consumers with new civil enforcement remedy rather than relying exclusively on State Bar discipline or criminal prosecution. It also directly targets illegal capping arrangements with citizen lawsuit enforcement.

Building on SB 37, this year CAOC sponsored **AB 2039 (Zbur)**, which further strengthens the consequences for attorneys involved in illegal capping. Effective January 1, 2027, the law requires the State Bar to pursue disbarment for capping convictions and establishes a $25,000 civil penalty per violation for specified unlawful solicitation conduct. AB 2039 also protects whistleblowers who report attorney misconduct and establishes safeguards governing attorney financial advances to clients.

The second bill CAOC sponsored this year was **AB 2305 (Kalra)**, which, effective January 1, 2027, prohibits private equity firms, hedge funds, corporate legal funders, and other business entities from directing or improperly influencing an attorney's professional judgment in significant litigation decisions. Decisions about which cases to pursue and whether or how to resolve a case must remain with the client and their lawyer, not an outside investor seeking to maximize a financial return.

Together, these four laws create a stronger framework protecting California consumers from improper financial influence, deceptive advertising, illegal solicitation, and unethical conduct within the legal profession.

SB 577: Protecting childhood sexual assault survivors

CAOC's work this session also included one of the most difficult negotiations of the past two years: preserving access to justice for survivors of childhood sexual assault while addressing valid concerns surrounding the financial solvency of public entities, specifically school districts. In September, Governor Gavin Newsom signed **SB 577 (Laird)** following nearly two years of negotiations.

Throughout the past two years, CAOC faced proposals that would have significantly restricted survivors' rights. At various points, proposals included caps on damages, limits on attorney fees, substantial restrictions on claims brought by survivors over age 40, changes to statutes of limitation, and heightened liability standards for public entities.

The final SB 577 represents a negotiated compromise. It makes meaningful changes to the standards and procedures governing certain childhood sexual assault claims against public entities, particularly older claims and those brought by plaintiffs over age 40. But the final law does not contain the sweeping damage caps or attorney-fee caps considered during negotiations.

For cases filed after January 1, 2026, plaintiffs over age 40 must prove by clear and convincing evidence that the public entity had actual knowledge of misconduct that resulted in abuse and failed to take reasonable steps or safeguards to prevent it. A previously proposed gross-negligence requirement was removed.

The law also reduces the delayed-discovery period from five years to three years, strengthens certificate-of-merit requirements, establishes specified remittitur considerations in certain cases involving plaintiffs over 40, and permits public entities to elect structured payment of certain judgments over time. It creates additional mechanisms addressing frivolous claims, bad-faith litigation, and abusive refiling practices.

SB 577 also establishes a 15% threshold before joint and several liability attaches in public-entity cases. Importantly, the final agreement pairs litigation reforms with new prevention and accountability measures intended to better protect children in juvenile justice and foster care settings.

The final result followed extensive work by CAOC leadership, CAOC members handling childhood sexual assault cases, survivor advocates, and legislative partners, particularly Senator John Laird, Senate President pro Tempore Monique Limón and Senator Tom Umberg.

Continuing the work

The 2025-26 session demonstrated the breadth of CAOC's advocacy – from holding bad actors in our own legal profession accountable to defending access to justice for survivors confronting abuse spanning decades.

These five laws do not end that work. As the new ethics laws take effect and SB 577 is implemented, CAOC will continue evaluating their impact, identifying remaining loopholes, and pursuing reforms necessary to protect consumers and preserve the integrity and independence of California's civil justice system.