HINSHAW

Private Capital and Professional Independence: MSOs and the Changing Business of Law

State Bars Take Steps to Regulate Management Service Organizations

Lawyers' Lawyer Newsletter | 6 min read

Nov 19, 2026

By: Matthew L. Pagano

Illinois[1] and Colorado[2] recently enacted legislation to limit the ability of non-attorneys, including private equity firms, to acquire ownership interests in law firms. A similar bill has been signed into law in California,[3] and will take effect on January 1, 2027. The State Bars of Texas[4] and North Carolina[5] have issued formal ethics opinions on the subject.

Non-attorney ownership of law firms has long been prohibited. While attorneys have to uphold strict ethical standards and owe duties of loyalty and care to their clients, investors' interests may be limited to maximizing returns. Preventing non-attorneys from controlling or influencing law firms is seen as a way to ensure that attorneys' responsibilities to their clients remain paramount.

Rule 5.4 and the Limits on Nonlawyer Ownership

The ABA Model Rules of Professional Conduct 5.4 "Professional Independence of a Lawyer" reflects this concern. It states that a lawyer shall not share legal fees with a nonlawyer, form a partnership with a nonlawyer to practice law, or practice for-profit in a professional corporation where a nonlawyer owns an interest therein or is a corporate officer. Rule 5.4(d) states that:

> A. A lawyer shall not practice with or in the form of a professional corporation or association authorized to practice law for a profit, if:
>
> 1. a nonlawyer owns any interest therein, except that a fiduciary representative of the estate of a lawyer may hold the stock or interest of the lawyer for a reasonable time during administration;

© 2026 Hinshaw & Culbertson LLP

2. a nonlawyer is a corporate director or officer thereof or occupies the position of similar responsibility in any form of association other than a corporation; or
3. a nonlawyer has the right to direct or control the professional judgment of a lawyer.[6]

The Benefits and Risks of MSOs

To be clear, private equity firms are not directly buying law firms. Instead, law firms are forming "Management Service Organizations" (MSOs), and selling stakes in them to investors. MSOs come in many forms and do not always involve a relationship with private equity investors.

Regardless of its form, an MSO does not employ a firm's attorneys or share in any fees performed for legal work. Rather, it is a separate entity that can exclusively handle a firm's non-legal business operations such as managing the office space, technology, marketing, human resources, and billing – all while licensed attorneys maintain total ownership of the law firm. The law firm and the investor-owned MSO are intertwined in the business aspects of the practice of law while remaining legally distinct. For all the potential conflicts that MSOs may bring, there are also advantages:

- **The investment capital generated by selling a stake in an MSO gives a law firm's partners liquidity** they would not have otherwise. Partners no longer need to wait for retirement to receive a return on the investment they have generated for a law firm throughout their careers.
- **MSOs take on non-legal administrative tasks**, freeing attorneys to focus on legal work.
- **MSOs address clients' growing demand for law firms to offer related, non-legal services** like consulting and compliance services, subject to ABA Model Rule 5.7[7] in jurisdictions that have adopted it.

Given these benefits and consequences, it should come as no surprise that there has been extensive debate among attorneys about the desirability and ethics of MSOs. On one hand, an MSO would take over a large amount of administrative work that takes up valuable attorney time. An MSO could also bring in dedicated professionals to handle the business and managerial work that is often handled by attorneys in smaller firms with no such training.

On the other hand, a PE firm might use its leverage as part owner of an MSO to encourage attorneys to offload supposedly routine legal work to non-attorneys. Equity partners cashing out via an MSO might effectively close the door to future equity partners as well. A sudden influx of cash to a law firm might also allow and even encourage the firm to take on especially risky (*i.e.*, weak) cases because it can now afford to cover the upfront costs.

States Respond to Ethical Concerns About MSOs

To address these concerns, states are updating their laws governing attorneys to prevent MSO investors from interfering in the law firm's legal practice even as the MSO takes on many non-legal responsibilities. Illinois recently added 705 ILCS 205/13 to its Attorney Act, a key provision of which states:

> B. An entity owned, operated, or controlled in whole or in part by persons not licensed as attorneys, including management services organizations, that is involved with a law firm's or attorney's practice may not do any of the following:
>
> 1. Interfere with the professional judgment of attorneys in representing clients.
> 2. Exercise control over or be delegated the power to do any of the following:
>   - to reveal, own, or determine the content of client records or to reveal any attorney-client communications;
>   - to select, hire, or terminate attorneys or allied legal staff; or
>   - to set competency, productivity, or proficiency parameters for attorneys or allied legal staff;
> 3. charge any fee to the attorney or law firm that is directly or indirectly based on the attorney's fees, revenues, or profits of the attorney or law firm.

This makes it clear that non-attorneys, here the investor/owners of a firm's related MSO, cannot wield indirect control over attorneys (direct control has long been prohibited).[8] While MSOs are generally allowed, neither an MSO nor its investors may exert influence over attorneys, such as by terminating critical legal staff, setting performance standards for attorneys, charging penalties, or otherwise interfering with attorneys' professional judgment. Client privacy is also protected, as MSOs may not access client files or attorney-client communications.

Colorado's MSO statute, C.R.S. 13-93-405(1), likewise states: "A lawyer or law firm providing legal services shall not compensate or engage a managed services organization in any manner unless the compensation paid to the managed services organization is not contingent upon or calculated as a percentage of legal fees, revenues, or profits and is not determined by reference to recoveries, settlements, judgment awards, or case outcomes." As does its counterpart in Illinois, §405 focuses on preventing MSOs from wielding soft power over their related law firms and attorneys by charging performance-based fees.

California's Assembly Bill 2305, now Cal. Bus. & Prof. Code § 6134, makes its purpose plain from the start: "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."[9] To that end, it prohibits much of the same conduct as its sibling statutes in other states. The law forbids non-attorneys from interfering in the law firm's decisions as to whether to take on a client, case strategy, or settlement, among other things. This coincides with the independence principles already set forth in the state's Rules of Professional Conduct.

The bill will likely impact a proposed transaction involving Wood Smith Henning & Berman, a California insurance defense firm with over 500 lawyers, assuming the deal is executed after the bill takes effect.[10] Sometime in

August 2026, the firm purportedly signed a letter of intent with the private equity firm Charlesbank Capital Partners to form an MSO. It may also impact the operations of Rimon PC, a San Francisco-based firm that pioneered the use of MSOs in a 2019 deal with the private equity firm Alpine Investors. McDermott Will & Schulte of Chicago is reported to be exploring an MSO as well, which would, of course, implicate 705 ILCS 205/13 discussed above.

Balancing Business Benefits with Professional Independence

Regulations such as these aim to strike a balance between allowing the expected benefits of MSOs streamlining law firm operations and preventing potential ethical violations caused by interference with the attorneys' professional judgment. The main concerns of these states in regulating MSOs are the protection of client privacy and the prohibition of non-attorneys exerting control over attorneys and cases. A law firm could still pay an MSO a fixed fee for handling non-legal tasks and allow partners to profit sooner and more directly from business they have developed. At the same time, those fees cannot be tied to any attorney's or the law firm's performance, and the law firm's duties to the client remain paramount.

---

[1] 705 ILCS 205/13 (eff. Aug. 07, 2026)

[2] C.R.S. 13-93-405 (eff. Aug. 12, 2026)

[3] CA Assembly Bill 2305 (signed Sep. 20, 2026, eff. Jan 1, 2027 as Cal. Bus. & Prof. Code § 6134)

[4] TX State Bar Ethics Opinion 560 and 706

[5] NC State Bar 2001 Formal Ethics Opinion 2; 2003 Formal Ethics Opinion 6

[6] ABA Model Rules of Professional Conduct, Rule 5.4(d)

[7] ABA Model Rules of Professional Conduct, Rule 5.7: Responsibilities Regarding Law-Related Services

[8] ABA Model Rules of Professional Conduct, Rule 5.4(b) "A lawyer shall not form a partnership with a nonlawyer if any of the activities of the partnership consist of the practice of law."

[9] CA Assembly Bill 2305 6134(a)

[10] CA Assembly Bill 2305 6134.14 ("This article shall only apply to contracts entered into on or after January 1, 2027.")

Hinshaw & Culbertson LLP is a U.S.-based law firm with offices nationwide. The firm's national reputation spans the insurance industry, the financial services sector, professional services, and other highly regulated industries. Hinshaw provides holistic legal solutions—from litigation and dispute resolution,

and business advisory and transactional services, to regulatory compliance—for clients of all sizes. Visit www.hinshawlaw.com for more information and follow @Hinshaw on LinkedIn and X.

Related People



Matthew L. Pagano

Associate

312-704-3072

Related Capabilities

Counselors for the Profession

Lawyers for the Profession®

Professional Services

Related Insights

The Rise of Management Service Organizations: How Lawyers and Lawmakers are Responding

Beyond Malpractice: The Rising Threat of Privacy and Statutory Claims Against Lawyers