

UTAH SUPREME COURT AD HOC COMMITTEE



REGULATORY REFORM

Hon. Nick Stiles, Co-Chair

Maryt Fredrickson, Co-Chair

Workgroup Meeting: Rule 5.4

October 19, 2026

12:00 – 1:00

Virtual Meeting Only

[Meeting Link](#)

1. Welcome
2. Meeting Minutes from June 5, 2026 (Tab 2)
3. Discussion of preliminary Rule 5.4 draft report and recommendation (Tab 3)
4. Discussion of 5.4 waiver entity possibilities
5. Action Items

Tab 1

Current 5.4 Scope

Rule 5.4 Workgroup	
• Research pros and cons of allowing lawyers to partner or share fees with nonlawyers, including any multijurisdictional implications. • Analyze lessons learned from Sandbox ABS entities as well as Arizona's ABS program. • Consider recommendations from experts on legal regulation.	• Examine rule 5.4 language from other states. • Develop a recommendation on whether rule 5.4 should be amended. • Draft proposed rule changes, if any.

Tab 2

Meeting Minutes
Utah Supreme Court's Ad Hoc Committee on Regulatory Reform
Rule 5.4 Meeting Minutes
Friday, June 5, 2026 - DRAFT
12:00 – 1:00
Virtual Only

The Committee accepted the minutes from the previous meeting with one amendment.

The Committee discussed the resources constraints on the Sandbox to adopt a system similar to Arizona's system related to ABSs. The Sandbox experiences has show that regulating alternative structures is resource intensive.

The Committee has considered the various options throughout its work, including the Arizona model, the Puerto Rico model which is tailored to entities with an access to justice impact, and whether to allow Sandbox entities a type of grandfathered status as the Sandbox sunsets.

The Committee discussed the differences between Puerto Rico's committee proposal and what was ultimately adopted. The Committee discussed whether there could be metrics for assessing access to justice impacts and the challenges of the Sandbox data collection over time.

There is a consensus to not pursue Arizona's model for 5.4 and ABS entities. What to recommend as the Sandbox sunsets related to existing entities operating through 5.4 waivers remains a discussion point.

Tab 3

****insert citations throughout after content is settled**

Rule 5.4

[Introduction TBD, after content and final recommendation are settled]

Objectives

The Utah Supreme Court directed the Rule 5.4 Working Group to:

- Research pros and cons of allowing lawyers to partner or share fees with nonlawyers, including any multijurisdictional implications.
- Analyze lessons learned from Sandbox ABS entities as well as Arizona's ABS program.
- Consider recommendations from experts on legal regulation.
- Examine rule 5.4 language from other states.
- Provide a recommendation on whether rule 5.4 should be amended.
- Draft proposed rule changes, if any.

Pros and Cons of Rule 5.4

Rule 5.4 is the rule that prohibits nonlawyers from having an ownership interest in law firms. In theory, a lawyer who answers to a nonlawyer owner may face pressure to subordinate a client's interest to the owner's financial interests. Said another way, introducing an equity holder with no fiduciary duty to the client may insert a party whose interests are not aligned with the representation. Rule 5.4 removes the potential conflict by prohibiting nonlawyer ownership.

Rule 5.4(c) and (d) of the Model Rule of Professional Conduct does so through this language:

(c) A lawyer shall not permit a person who recommends, employs, or pays the lawyer to render legal services for another to direct or regulate the lawyer's professional judgment in rendering such legal services.

(d) 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;

(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.

Advocates for 5.4 Reforms. There have been ample calls nationwide for Rule 5.4 reforms, to allow nonlawyer investment.¹ Those calls for reform frequently highlight the possibility that Rule 5.4 reforms could impact access to justice efforts. As noted in the AI/Legal Technology section of this report, the 5.4 Working Group and the AI/Legal Tech met jointly with national experts in the early months of this effort and heard more about the role 5.4 reforms can have on advancing the development and deployment of legal technology to expand the market of available legal service providers.

Rule 5.4 Waivers and the Sandbox. Utah’s Sandbox provided an opportunity for entities to operate outside of Rule 5.4. Entities could apply to the Innovation Office and receive a 5.4 waiver. The Utah Supreme Court amended Rule 5.4 of the Utah Rules of Professional Conduct concurrent to the launch of the Sandbox to allow for those Rule 5.4 waivers. The rule was subsequently amended in 2026. The current rule states: [confirm this is accurate or if the amendment is effective on November 1, 2026]

(c) A lawyer or law firm may share legal fees with a nonlawyer if:

(1) the fee to be shared is reasonable and the fee-sharing arrangement has been authorized as required by Utah Supreme Court Standing Order No. 15;

(2) the lawyer or law firm provides written notice to the affected client and, if applicable, to any other person paying the legal fees;

(3) the written notice describes the relationship with the nonlawyer, including the fact of the fee-sharing arrangement; and

(4) the lawyer or law firm provides the written notice before accepting representation or before sharing fees from an existing client.

¹ [add cite. Rhode report on this from 2020, and there are others.]
<https://www.americanbar.org/groups/gpsolo/resources/magazine/archive/model-rule-54/?login>

(d) A lawyer may practice law with nonlawyers, or in an organization, including a partnership, in which a financial interest is held or managerial authority is exercised by one or more persons who are nonlawyers, provided that the nonlawyers or the organization has been authorized as required by Utah Supreme Court Standing Order No. 15 and provided the lawyer shall:

- (1) before accepting a representation, provide written notice to a prospective client that one or more nonlawyers holds a financial interest in the organization in which the lawyer practices or that one or more nonlawyers exercises managerial authority over the lawyer; and
- (2) set forth in writing to a client the financial and managerial structure of the organization in which the lawyer practices.

Lessons learned related to Rule 5.4 in the Utah Sandbox

The Rule 5.4 waivers provided mixed results, and the data collected does not support a direct impact on access to justice. This conclusion is limited – it does not mean there was no impact to access to justice; it only means there is no empirical data through this sandbox effort to rely on for continued Rule 5.4 reforms at this time. Other sandboxes around the country and other types of regulatory reform efforts could support a need for Rule 5.4 reforms. Current efforts in Arizona and Puerto Rico, summarized later in this report, may provide empirical evidence for future reforms.

Labor Intensive. One of the largest lessons learned from the Sandbox is the volume of staff and financial resources needed for the regulation of entities. As noted earlier in this report, the Sandbox model focused on consumer complaints and data tracking as back-end controls for measuring and addressing consumer harm, both of which are resource intensive. Audits, as another type of control measure, were also labor intensive and were only conducted at a rate of one entity per year.

Multi-Jurisdictional Concerns for Out-of-State Participants. The Sandbox presented several lessons learned about alternative business structures (ABS). An ABS allows outside investors to own a stake in an entity that provides legal services in conjunction with other services. One type of ABS is a one-stop-shop, such as a Certified Public Accountant and a tax attorney under the same roof.

A significant number of ABSs in the Sandbox were related to immigration services. Over time, some of those entities used Sandbox authorization as a marketing point to imply or suggest that the entity was licensed to practice law nationwide. The Utah Supreme Court, however, only has authority to authorize the practice of law within its state borders.²

In response to concerns about the ABS program, the Utah Supreme Court reexamined parts of the Sandbox and launched the revisions known as Phase 2. That pause and reexamination of the ABS program aligns with some academic views of innovation—to pause, take a close look at what was working well and what might not be working well, and make adjustments to the project moving forward.³ The Sandbox temporarily paused applications. In September 2024, the court narrowed the Sandbox’s scope. It closed the ABS-only portion of the Sandbox effective December 31, 2024, and it refocused Phase 2 on Moderate- and High-Innovation entities—models in which alternative legal providers, whether human or software, engage in limited-scope legal practice. It also refocused the Sandbox on entities expected to have impacts on Utah consumers. Phase 2 applicants were required to satisfy an Innovation Requirement by demonstrating that Sandbox authorization would allow them to reach Utah consumers currently underserved by the existing legal market. The Court discontinued acceptance of applications from for-profit entities operating solely or primarily as ABS structures.

Positive Impacts. One notable positive example of a Rule 5.4 waiver for an entity within the Sandbox was a firm in Utah that offered an ownership interest to its long-time paralegal. [other neat examples to include?]

While such arrangements could illustrate the potential of a modified Rule 5.4—or serve as examples of the lack of consumer harm in some types of arrangements—the long-term impact of 5.4 waivers on the access to justice gap remains unproven through this sandbox effort. Based on the limitations of the data collected, no alternative business structures (ABS) have demonstrated a measurable impact on access to justice. As noted earlier, that does not suggest there was no impact on access to justice. It means only that the empirical evidence of that impact was not generated through this sandbox effort.

² Immigration is also an area that already allows for nonlawyers to provide legal services in an access to justice environment, for to those who cannot pay for immigration-related services, through the Accredited Representative program managed by the U.S. Department of Justice. [add citation to the DOJ program and a law review article or white paper]

³ [needs citation]

Comparing State Models

District of Columbia. The District of Columbia (D.C.) was the first jurisdiction to amend Rule 5.4 and allow partnerships with nonlawyers. The D.C. Bar modified Rule 5.4 in 1991. It proposed amendments in 2025, which were approved in April 2026 pending a final approval by the D.C. Court of Appeals.⁴

The rule, if it receives its final approval, allows D.C. lawyers to cooperate and share fees with nonlawyers in a firm where its principal purpose, as distinguished from its “sole” purpose, is the provision of legal services to clients. Nonlawyer owners must be supervised by lawyers, and the rule reiterates the professional independence of lawyers. If a lawyer’s representation involves nonlawyer owners, the lawyer must disclose that involvement to prospective and existing clients. Law firms with nonlawyer owners would be required to register with the D.C. Bar and provide an annual filing to update that registration. The D.C. Bar may choose to require additional information from firms with nonlawyer owners. Nonlawyer owners would be required to complete a mandatory professional responsibility course. The rule prohibits passive investment by nonlawyer owners.

The D.C. Bar’s reforms to Rule 5.4 did not focus on access to justice like Utah’s Sandbox effort. It also has no additional reporting requirement, beyond the annual registration, or has no special enforcement or disciplinary mechanisms. In light of the differences in purpose, the D.C. model provides limited information to compare this approach to Utah’s target goal of increasing access to justice.

Arizona. In 2021, Arizona completely removed Rule 5.4 to allow ABSs.⁵ This model requires enhanced oversight not traditionally found in the practice of law. Arizona requires all ABS entities to have compliance attorneys who are licensed to practice law in Arizona. Complaints against an ABS are received, investigated, and prosecuted through the State Bar of Arizona, the same as for Arizona attorneys. The stated purpose of Arizona’s 5.4 reform is to encourage businesses to provide legal services at affordable prices. Published data regarding the impact on access to justice is not yet available.

Puerto Rico. Puerto Rico recently amended Rule 5.4 to allow for nonlawyer ownership only where the purpose of the entity is to provide free legal services. There are eight

⁴ [DC Bar - What You Need to Know About Proposed Changes to Rules Governing Nonlawyer Ownership in D.C. Law Firm](#); [DC Bar - Comment on Proposed Changes to D.C. Rules Pertaining to Nonlawyer Owners in a Firm](#); [ILPC-5-4-Report-for-Public-Comment-June-2025-FINAL](#)

⁵ Ariz. Code of Judicial Admin. § 7-209; Arizona Judicial Branch, *Alternative Business Structures (ABS) Frequently Asked Questions*, [Questions-and-AnswersABS](#).

requirements prescribed in the new rule. The Puerto Rico Supreme Court did not unanimously adopt the rule change; Justice Luis F. Estrella Martinez dissented from the change. Puerto Rico will conduct a study after three years to determine any impacts. Here is the [order](#) (in Spanish) and the guide on new [rules](#) (in Spanish).

There are critics of Puerto Rico's efforts. One criticism is the increased risk of extending a jurisdiction's regulatory authority from the attorneys' disciplinary authority body to nonlawyers, since a supreme court's disciplinary authority only extends to licensed lawyers.⁶ A nonlawyer owner who influences firm conduct sits largely outside that authority. That gap is unresolved under Puerto Rico's new rule, where nonlawyer owners cannot be directly disciplined by the territory's attorney disciplinary system.

Washington. In 2025, the Washington Supreme Court launched a 10-year pilot program as a sandbox that authorizes entities not owned by lawyers to practice law, but under strict conditions that limit the duration of their operations and that require active monitoring and oversight.⁷ Each entity is required to have a compliance officer.

Tennessee. In 2025, the Tennessee Supreme Court published an order soliciting public comments on potential reforms to the profession, including whether Rule 5.4 should be amended. A robust public comment period followed, resulting in almost 400 comments. On October 2, 2026, the Tennessee Supreme Court determined that no 5.4 reforms would be pursued at this time. It stated:

At this time, the Court has not identified sufficient need or support for reforms related to non-lawyer ownership of law firms or fee-sharing with non-lawyers. The Court may revisit this topic in the future as additional data regarding the success of these reforms becomes available.

Recent Legislative Prohibitions on ABS Models

Some states have moved in the opposite direction through legislative efforts.

California. In October 2025, California enacted legislation expressly prohibiting ABSs and adding an additional prohibition: California attorneys may not share fees with an out-of-state ABS-associated attorney unless three conditions are met: (1) the lawyer is also licensed in the state in which the ABS is approved; (2) the fees compensate the lawyer for legal services provided in that state; and (3) under California Rule of Professional

⁶ [Insert citation]

⁷ <https://www.lawnext.com/wp-content/uploads/2024/12/Order-25700-B-721.pdf>

Conduct 8.5, the law of that other state controls the lawyer’s conduct.⁸ The restrictions in this legislation are in effect for four years, expiring January 1, 2030.

Illinois. On August 7, 2026, Illinois enacted Public Act 104-0801. It has some similarities to the California legislation. An Illinois lawyer may not directly or indirectly share legal fees with an out-of-state ABS unless three conditions are satisfied: (1) the Illinois lawyer is also licensed in the state where the ABS is approved; (2) the fees compensate the lawyer for legal services provided in that state; and (3) that other state’s law controls under Illinois Rule of Professional Conduct 8.5.

Colorado. The Colorado legislature took a more direct approach. House Bill 26-1421 took effect August 12, 2026.⁹ The statute states that “financial arrangements that provide nonlawyers with an economic interest in law firms and their fees, revenues, or case outcomes, however structured, threaten a lawyer’s duties of loyalty to their client, confidentiality, and professional independence.” The statute prohibits fee sharing with an ABS, and it prohibits a range of other contractual relationships with ABSs when the arrangement relates to legal services.

Market-Based Tools

Managed Service Organizations. In states that have not revised Rule 5.4, some companies or law firms work around Rule 5.4 by carving off services. For example, the law firm of McDermott Will & Schulte bifurcated the law firm into a professional organization composed of all lawyers, and a “managed service organization” (MSO) composed of nonlawyers to handle human resources, information technology, marketing, etc. MSOs have been used in the medical field for some time. The expansion of MSOs in the legal sector has been referred to in legal media as the “McDermott Effect.”¹⁰ At least one legal technology company the AI/Legal Technology Working Group met with also uses a bifurcated structure with an MSO.

Co-counseling models. The Working Group also learned about co-counseling models used by some companies. In this type of structure, a company that offers services in multiple states has a network of attorneys licensed in the states the entity serves

The MSO and co-counseling models suggest that leaving Rule 5.4 unchanged for now has a free-market solution for entities wanting to fee share with nonlawyers. But those options may not be an option for small and solo firms or certain other types of legal

⁸ Assembly Bill 931.

⁹ https://leg.colorado.gov/bill_files/117184/download

¹⁰ [McDermott Will & Schulte Considers Outside Investment in Firm](#)

services providers. They also might not squarely address the role of investors and shared ownership in legal technology entities by nonlawyers.

Recommendation

Recommendation Against General Rule 5.4 Reforms. In the absence of empirical data from the Sandbox to show that the 5.4 waivers resulted in increased access to justice, the Working Group does not recommend Rule 5.4 reforms at this time. The Working Group also notes the opposition by some state legislatures to Rule 5.4 reforms related to ABSs. The spectrum of views around the country—from removing Rule 5.4 in Arizona to prohibitions on ABS involvement in three states—suggest an unsettled landscape at this time, warranting some caution in 5.4 reforms for now.

The reasons Rule 5.4 reforms are advocated for, both nationwide and by members of the Utah bar, remain persuasive. Consistent with Tennessee’s approach announced in October 2026, further study of Rule 5.4 reforms is recommended by the Working Group as Arizona’s model and Puerto Rico’s model continue to operate. The Institute for the Advancement of the American Legal System (IAALS) is designing an evaluation framework to help courts and justice partners evaluate whether Rule 5.4 reforms are working, with a goal of providing an evidence-based and consumer-focused blueprint as states continue to consider 5.4 reforms.¹¹ That future toolkit could further inform a second look at Rule 5.4 reforms at a future point in Utah.

However, some revision to Rule 5.4 may be appropriate, to remove the current references to Standing Order 15. [TBD - The Working Group also recommends some amendments to accommodate existing 5.4 waivers on an ongoing basis. Allowing those entities to continue could provide further information for a future look at Rule 5.4 reforms.]

Recommendation for Modest Reforms to Accommodate Existing Sandbox Entities. As noted earlier in this report, there are several entities in the Sandbox operating with Rule 5.4 waivers. It is unknown at this time if the 5.4 waivers affect their ability to operate, and all were notified in Phase 2 of the Sandbox there would be an opportunity to apply for a continued waiver as the Sandbox reached its sunset date.

The Working Group recommends [TBD]

¹¹ <https://iaals.du.edu/projects/unlocking-legal-regulation/abs-evaluation-blueprint>

Collaboration for Implementation.

A proposed redline rule amendment is attached at Appendix **■**.

[**TBD** – whether future collaboration is needed and with whom, depending on what is needed for existing 5.4 waiver entities]

Working Group Members (in alphabetical order)

- J. Brett Chambers, Commissioner, Utah State Bar
- Michelle Daniels, Office of Professional Conduct, Utah State Bar
- Connor Dela-Cruz, Associate, [insert firm's name]; and former Regulatory Reform Fellow
- Andrea Donahue, Director, Office of Legal Service Innovation; and Liaison to the Ad Hoc Committee on Regulatory Reform
- Maryt Fredrickson, Chief of Staff to the Chief Justice of the Utah Supreme Court; and Co-Chair, Ad Hoc Committee on Regulatory Reform
- Maribeth Lehoux, General Counsel, Utah State Bar
- Alyson McCallister, Chair, Legal Services Innovation Committee
- Hon. Nick Stiles, Salt Lake City Justice Court; former Appellate Court Administrator, Utah State Courts; and Co-Chair, Ad Hoc Committee on Regulatory Reform
- Cory Talbot, Chair, Rules of Professional Conduct Committee

Many thanks to Barbara Townsend, Office of Professional Conduct, Utah State Bar for her contributions as a committee member before her retirement.

Appendix ____

[no redlines added yet]

Rule 3-5.4. Professional Independence of a Lawyer.

(a) A lawyer may provide legal services pursuant to this Rule only if there is at all times no interference with the lawyer's:

(1) professional independence of judgment;

(2) duty of loyalty to a client; and

(3) protection of client confidences.

(b) A lawyer may permit a person to recommend, retain, or pay the lawyer to render legal services for another.

(c) A lawyer or law firm may share legal fees with a nonlawyer if:

(1) the fee to be shared is reasonable and the fee-sharing arrangement has been authorized as required by Utah Supreme Court Standing Order No. 15;

(2) the lawyer or law firm provides written notice to the affected client and, if applicable, to any other person paying the legal fees;

(3) the written notice describes the relationship with the nonlawyer, including the fact of the fee-sharing arrangement; and

(4) the lawyer or law firm provides the written notice before accepting representation or before sharing fees from an existing client.

(d) A lawyer may practice law with nonlawyers, or in an organization, including a partnership, in which a financial interest is held or managerial authority is exercised by one or more persons who are nonlawyers, provided that the nonlawyers or the organization has been authorized as required by Utah Supreme Court Standing Order No. 15 and provided the lawyer shall:

(1) before accepting a representation, provide written notice to a prospective client that one or more nonlawyers holds a financial interest in the organization in which

the lawyer practices or that one or more nonlawyers exercises managerial authority over the lawyer; and

(2) set forth in writing to a client the financial and managerial structure of the organization in which the lawyer practices.

Effective May 1, 2021

Comments

[1] The provisions of this Rule are to protect the lawyer's professional independence of judgment, to assure that the lawyer is loyal to the needs of the client, and to protect clients from the disclosure of their confidential information. Where someone other than the client pays the lawyer's fee or salary, manages the lawyer's work, or recommends retention of the lawyer, that arrangement does not modify the lawyer's obligation to the client. As stated in paragraph (a), such arrangements must not interfere with the lawyer's professional judgment. See also Rule 1.8(f) (lawyer may accept compensation from a third party as long as there is no interference with the lawyer's independent professional judgment and the client gives informed consent). This Rule does not lessen a lawyer's obligation to adhere to the Rules of Professional Conduct and does not authorize a nonlawyer to practice law by virtue of being in a business relationship with a lawyer. It may be impossible for a lawyer to work in a firm where a nonlawyer owner or manager has a duty to disclose client information to third parties, as the lawyer's duty to maintain client confidences would be compromised.

[2] The Rule also expresses traditional limitations on permitting a third party to direct or regulate the lawyer's professional judgment in rendering legal services to another. See also Rule 1.8(f) (lawyer may accept compensation from a third party as long as there is no interference with the lawyer's independent professional judgment and the client gives informed consent).

[3] Paragraph (c) permits individual lawyers or law firms to pay for client referrals, share fees with nonlawyers, or allow third party retention. In each of these instances, the financial arrangement must be reasonable, authorized as required under Supreme Court Standing Order No. 15, and disclosed in writing to the client before engagement and before fees are shared. Whether in accepting or paying for referrals, or fee-sharing, the lawyer must protect the lawyer's professional judgment, ensure the lawyer's loyalty to the client, and protect client confidences.

[4] Paragraph (d) permits individual lawyers or law firms to enter into business or employment relationships with nonlawyers, whether through nonlawyer ownership or investment in a law practice, joint venture, or through employment by a nonlawyer owned entity. In each instance, the nonlawyer owned entity must be approved by the Utah Supreme Court for authorization under Standing Order No. 15.

[5] This Rule differs from the ABA Model Rule. Additional changes have been made to the comments.