

Rule 1.5 [4-200] Fees for Legal Services

(Commission's Proposed Rule Adopted on September 25 – 26, 2015 – Clean Version)

- (a) A lawyer shall not make an agreement for, charge, or collect an unconscionable or illegal fee.
- (b) Unconscionability of a fee shall be determined on the basis of all the facts and circumstances existing at the time the agreement is entered into except where the parties contemplate that the fee will be affected by later events. The factors to be considered in determining the unconscionability of a fee include without limitation the following:
 - (1) whether the lawyer engaged in fraud* or overreaching in negotiating or setting the fee;
 - (2) whether the lawyer has failed to disclose material facts;
 - (3) the amount of the fee in proportion to the value of the services performed;
 - (4) the relative sophistication of the lawyer and the client;
 - (5) the novelty and difficulty of the questions involved, and the skill requisite to perform the legal service properly;
 - (6) the likelihood, if apparent to the client, that the acceptance of the particular employment will preclude other employment by the lawyer;
 - (7) the amount involved and the results obtained;
 - (8) the time limitations imposed by the client or by the circumstances;
 - (9) the nature and length of the professional relationship with the client;
 - (10) the experience, reputation, and ability of the lawyer or lawyers performing the services;
 - (11) whether the fee is fixed or contingent;
 - (12) the time and labor required;
 - (13) whether the client gave informed consent* to the fee.
- (c) A lawyer shall not enter into an arrangement for, charge, or collect:
 - (1) any fee in a family law matter, the payment or amount of which is contingent upon the securing of a dissolution or declaration of nullity of a

marriage or upon the amount of spousal or child support, or property settlement in lieu thereof; or

- (2) a contingent fee for representing a defendant in a criminal case.
- (d) A lawyer may make an agreement for, charge, or collect a fee that is denominated as “earned on receipt” or “non-refundable,” or in similar terms, only if the fee is a true retainer and the client agrees in writing* after disclosure that the client will not be entitled to a refund of all or part of the fee charged. A true retainer is a fee that a client pays to a lawyer to ensure the lawyer’s availability to the client during a specified period or on a specified matter, but not to any extent as compensation for legal services performed or to be performed.
- (e) A lawyer may make an agreement for, charge, or collect a flat fee for specified legal services as long as the lawyer performs the agreed upon services. A flat fee is a fee which constitutes complete payment for legal fees to be performed in the future for a fixed sum regardless of the amount of work ultimately involved and which may be paid in whole or in part in advance of the lawyer providing those services.

Comment

Prohibited Contingent Fees

[1] Paragraph (c)(1) does not preclude a contract for a contingent fee for legal representation in connection with the recovery of post-judgment balances due under child or spousal support or other financial orders.

Payment of Fees in Advance of Services

[2] When a lawyer-client relationship terminates, the lawyer must refund the unearned portion of a fee. See Rule 1.16(e)(2).

Division of Fee

[3] A division of fees among lawyers is governed by Rule 1.5.1.

PROPOSED RULE OF PROFESSIONAL CONDUCT 1.5
(Current Rule 4-200)
Fees For Legal Services

EXECUTIVE SUMMARY

The Commission for the Revision of the Rules of Professional Conduct (“Commission”) has evaluated current rule 4-200 (Fees for Legal Services) in accordance with the Commission Charter, with a focus on the function of the rule as a disciplinary standard, and with the understanding that the rule comments should be included only when necessary to explain a rule and not for providing aspirational guidance. In addition, the Commission considered the national standard of the American Bar Association (“ABA”) counterpart, Model Rule 1.5 (Fees). The result of the Commission’s evaluation is proposed rule 1.5 (Fees for Legal Services). This proposed rule has been adopted by the Commission for submission to the Board of Trustees for public comment authorization. A final recommended rule will follow the public comment process.

A fundamental issue posed by this proposed rule is whether to retain the longstanding “unconscionable fee” standard used in California’s current rule 4-200. Nearly every other jurisdiction has adopted an “unreasonable fee” standard for describing a prohibited fee for legal services.¹ The Commission determined to retain California’s unconscionability standard as this standard carries forward California’s public policy rationale which was stated over 80 years ago by the Supreme Court in *Herrscher v. State Bar* (1934) 4 Cal.2d 399, 402-403:

In the few cases where discipline has been enforced against an attorney for charging excessive fees, there has usually been present some element of fraud or overreaching on the attorney's part, or failure on the attorney's part to disclose the true facts, so that the fee charged, under the circumstances, constituted a practical appropriation of the client's funds under the guise of retaining them as fees.

Generally speaking, neither the Board of Governors nor this court can, or should, attempt to evaluate an attorney's services in a quasi-criminal proceeding such as this, where there has been no failure to disclose to the client the true facts or no overreaching or fraud on the part of the attorney. *It is our opinion that the disciplinary machinery of the bar should not be put into operation merely on the complaint of a client that a fee charged is excessive, unless the other elements above mentioned are present.* (Emphasis added) (Citations omitted).

The Commission believes that if the foregoing policy was prudent in 1934, it is even more sound today because currently consumer protection against lawyers who charge unreasonable fees is provided through both the civil court system and California’s robust mandatory fee arbitration program. (See Bus. & Prof. Code § 6200 et seq.) Under the statutory fee arbitration program, arbitration of disputes over legal fees is voluntary for a client but mandatory for a lawyer when commenced by a client. Accordingly, California’s current approach to fee controversies is

¹ Only California, Massachusetts, New York, North Carolina and Texas have not adopted the Model Rules’ standard of “unreasonable,” the latter four having adopted (or more accurately continued from the ABA Code of Professional Responsibility) an “excessive” or “clearly excessive” standard. Michigan, Ohio and Oregon have also carried forward the “excessive” standard but define “excessive” as in excess of reasonable, so they effectively have adopted an unreasonable standard.

two-fold: (1) disputes over the reasonable amount of a fee may be handled through arbitration; and (2) fee issues involving overreaching, illegality or fraud are appropriate for initiating an attorney disciplinary proceeding. The Commission is unable to perceive any benefit that would arise from changing to the “unreasonable fee” standard. The downsides of such a change include potential unjustified public expectations that a disciplinary proceeding is an effective forum for addressing routine disputes concerning the amount of a lawyer’s fee. Finally, with respect to the unconscionable fee standard, the Commission recommends adding two factors, proposed paragraphs (b)(1) and (b)(2), to those factors that should be considered in determining the unconscionability of a fee. Both factors are derived from considerations identified in the *Herrscher* decision for determining unconscionability.

In addition to retaining the “unconscionable fee” standard, proposed rule 1.5 adds three substantive paragraphs not found in the current rule. First, paragraph (c), which is derived from ABA Model Rule 1.5(d), identifies two types of contingent fee arrangements that are prohibited: contingent fees in certain family law matters; and contingent fees in criminal matters. Although there are other kinds of contingent fee cases that might be prohibited, these two types of contingent fee arrangements have traditionally been viewed as implicating important Constitutional rights or public policy. Second, paragraph (d) prohibits denominating a fee as “earned on receipt” or “nonrefundable” except in the case of a true retainer, i.e., where a fee is paid to assure the availability of a lawyer for a particular matter or for a defined period of time. (See *T & R Foods, Inc. v. Rose* (1996) 47 Cal.App.4th Supp. 1.) Paragraph (d) is intended to increase protection for clients by recognizing that except for specific circumstances, a fee is not earned until services have been provided. Paragraph (e) expressly provides that a flat fee is permissible only if the lawyer provides the agreed upon services. In part, these new provisions implement a basic concept of contract law; namely that, except for true retainers, an advance fee is never earned unless and until a lawyer provides the agreed upon services for which the lawyer was retained.

Three comments are included in the proposed rule. Comment [1] is derived from Model Rule 1.5 Comment [6] and explains that some contingent fee arrangements related to family law matters are permitted. Specifically, the comment recognizes that certain post-judgment contingent fee arrangements are permitted because they do not implicate the policies underlying the prohibition. Comment [2] provides a cross-reference to the rule governing termination of employment, including a lawyer’s voluntary withdrawal from representation. This cross-reference is intended to enhance client protection by helping assure that lawyers comply with the obligation to refund unearned fees when a representation ends. Comment [3] provides a cross-reference to the fee splitting rule. In many other jurisdictions, the provision that governs fee divisions among lawyers is found in a lettered paragraph in the jurisdiction’s counterpart to Model Rule 1.5. In California, the provision addressing division of fees is contained in a separate, standalone rule. Providing a cross-reference facilitates compliance.

**Rule 1.5 [4-200] Fees for Legal Services
(Redline Comparison of the Proposed Rule to Current California Rule)**

- (Aa) A ~~member~~lawyer shall not ~~enter into~~make an agreement for, charge, or collect an ~~illegal or~~unconscionable or illegal fee.
- (Bb) Unconscionability of a fee shall be determined on the basis of all the facts and circumstances existing at the time the agreement is entered into except where the parties contemplate that the fee will be affected by later events. ~~Among the~~The factors to be considered, ~~where appropriate,~~ in determining the ~~conscionability~~unconscionability of a fee ~~are~~include without limitation the following:
- (1) whether the lawyer engaged in fraud* or overreaching in negotiating or setting the fee;
 - (2) whether the lawyer has failed to disclose material facts;
 - (43) ~~The~~the amount of the fee in proportion to the value of the services performed~~;~~;
 - (24) ~~The~~the relative sophistication of the ~~member~~lawyer and the client~~;~~;
 - (35) ~~The~~the novelty and difficulty of the questions involved, and the skill requisite to perform the legal service properly~~;~~;
 - (46) ~~The~~the likelihood, if apparent to the client, that the acceptance of the particular employment will preclude other employment by the ~~member~~lawyer~~;~~;
 - (57) ~~The~~the amount involved and the results obtained~~;~~;
 - (68) ~~The~~the time limitations imposed by the client or by the circumstances~~;~~;
 - (79) ~~The~~the nature and length of the professional relationship with the client~~;~~;
 - (810) ~~The~~the experience, reputation, and ability of the ~~member or members~~lawyer or lawyers performing the services~~;~~;
 - (911) ~~Whether~~whether the fee is fixed or contingent~~;~~;
 - (4012) ~~The~~the time and labor required~~;~~;
 - (14) ~~The~~13) whether the client gave informed consent* ~~of the client~~ to the fee.
- (c) A lawyer shall not enter into an arrangement for, charge, or collect:

- (1) any fee in a family law matter, the payment or amount of which is contingent upon the securing of a dissolution or declaration of nullity of a marriage or upon the amount of spousal or child support, or property settlement in lieu thereof; or
- (2) a contingent fee for representing a defendant in a criminal case.
- (d) A lawyer may make an agreement for, charge, or collect a fee that is denominated as “earned on receipt” or “non-refundable,” or in similar terms, only if the fee is a true retainer and the client agrees in writing* after disclosure that the client will not be entitled to a refund of all or part of the fee charged. A true retainer is a fee that a client pays to a lawyer to ensure the lawyer’s availability to the client during a specified period or on a specified matter, but not to any extent as compensation for legal services performed or to be performed.
- (e) A lawyer may make an agreement for, charge, or collect a flat fee for specified legal services as long as the lawyer performs the agreed upon services. A flat fee is a fee which constitutes complete payment for legal fees to be performed in the future for a fixed sum regardless of the amount of work ultimately involved and which may be paid in whole or in part in advance of the lawyer providing those services.

Comment

Prohibited Contingent Fees

[1] Paragraph (c)(1) does not preclude a contract for a contingent fee for legal representation in connection with the recovery of post-judgment balances due under child or spousal support or other financial orders.

Payment of Fees in Advance of Services

[2] When a lawyer-client relationship terminates, the lawyer must refund the unearned portion of a fee. See Rule 1.16(e)(2).

Division of Fee

[3] A division of fees among lawyers is governed by Rule 1.5.1.

COMMISSION PROVISIONAL REPORT AND RECOMMENDATION: RULE 1.5 [4-200]

Commission Drafting Team Information

Lead Drafter: Raul Martinez

Co-Drafters: Nanci Clinch, Daniel Eaton

Meeting Dates at which the Rule was Discussed: September 25 – 26, 2015

Action Summary Approval Date: October 23, 2015

I. CURRENT CALIFORNIA RULE 4-200

Rule 4-200 Fees for Legal Services

- (A) A member shall not enter into an agreement for, charge, or collect an illegal or unconscionable fee.
- (B) Unconscionability of a fee shall be determined on the basis of all the facts and circumstances existing at the time the agreement is entered into except where the parties contemplate that the fee will be affected by later events. Among the factors to be considered, where appropriate, in determining the conscionability of a fee are the following:
 - (1) The amount of the fee in proportion to the value of the services performed.
 - (2) The relative sophistication of the member and the client.
 - (3) The novelty and difficulty of the questions involved and the skill requisite to perform the legal service properly.
 - (4) The likelihood, if apparent to the client, that the acceptance of the particular employment will preclude other employment by the member.
 - (5) The amount involved and the results obtained.
 - (6) The time limitations imposed by the client or by the circumstances.
 - (7) The nature and length of the professional relationship with the client.
 - (8) The experience, reputation, and ability of the member or members performing the services.
 - (9) Whether the fee is fixed or contingent.
 - (10) The time and labor required.
 - (11) The informed consent of the client to the fee.

COMMISSION PROVISIONAL REPORT AND RECOMMENDATION: RULE 1.5 [4-200]

II. COMMISSION'S RECOMMENDATION AND VOTE

The Commission voted to recommend a proposed amended rule as set forth below in Section
At the Commission's September 25 - 26, 2015 meeting, all members present voted to adopt this recommendation.

III. COMMISSION'S PROPOSED RULE 1.5 [4-200] (CLEAN)

Rule 1.5 [4-200] Fees for Legal Services

- (a) A lawyer shall not make an agreement for, charge, or collect an unconscionable or illegal fee.
- (b) Unconscionability of a fee shall be determined on the basis of all the facts and circumstances existing at the time the agreement is entered into except where the parties contemplate that the fee will be affected by later events. The factors to be considered in determining the unconscionability of a fee include without limitation the following:
 - (1) whether the lawyer engaged in fraud* or overreaching in negotiating or setting the fee;
 - (2) whether the lawyer has failed to disclose material facts;
 - (3) the amount of the fee in proportion to the value of the services performed;
 - (4) the relative sophistication of the lawyer and the client;
 - (5) the novelty and difficulty of the questions involved, and the skill requisite to perform the legal service properly;
 - (6) the likelihood, if apparent to the client, that the acceptance of the particular employment will preclude other employment by the lawyer;
 - (7) the amount involved and the results obtained;
 - (8) the time limitations imposed by the client or by the circumstances;
 - (9) the nature and length of the professional relationship with the client;
 - (10) the experience, reputation, and ability of the lawyer or lawyers performing the services;
 - (11) whether the fee is fixed or contingent;
 - (12) the time and labor required;

COMMISSION PROVISIONAL REPORT AND RECOMMENDATION: RULE 1.5 [4-200]

- (13) whether the client gave informed consent* to the fee.
- (c) A lawyer shall not enter into an arrangement for, charge, or collect:
- (1) any fee in a family law matter, the payment or amount of which is contingent upon the securing of a dissolution or declaration of nullity of a marriage or upon the amount of spousal or child support, or property settlement in lieu thereof; or
 - (2) a contingent fee for representing a defendant in a criminal case.
- (d) A lawyer may make an agreement for, charge, or collect a fee that is denominated as “earned on receipt” or “non-refundable,” or in similar terms, only if the fee is a true retainer and the client agrees in writing* after disclosure that the client will not be entitled to a refund of all or part of the fee charged. A true retainer is a fee that a client pays to a lawyer to ensure the lawyer’s availability to the client during a specified period or on a specified matter, but not to any extent as compensation for legal services performed or to be performed.
- (e) A lawyer may make an agreement for, charge, or collect a flat fee for specified legal services as long as the lawyer performs the agreed upon services. A flat fee is a fee which constitutes complete payment for legal fees to be performed in the future for a fixed sum regardless of the amount of work ultimately involved and which may be paid in whole or in part in advance of the lawyer providing those services.

Comment

Prohibited Contingent Fees

[1] Paragraph (c)(1) does not preclude a contract for a contingent fee for legal representation in connection with the recovery of post-judgment balances due under child or spousal support or other financial orders.

Payment of Fees in Advance of Services

[2] When a lawyer-client relationship terminates, the lawyer must refund the unearned portion of a fee. See Rule [1.16(e)(2)].

Division of Fee

[3] A division of fees among lawyers is governed by Rule 1.5.1 [2-200].

IV. COMMISSION’S PROPOSED RULE 1.5 [4-200] (REDLINE TO CURRENT CALIFORNIA RULE 4-200)

Rule 1.5 [4-200] Fees for Legal Services

(Aa) A ~~member~~lawyer shall not ~~enter into~~make an agreement for, charge, or collect an ~~illegal~~

COMMISSION PROVISIONAL REPORT AND RECOMMENDATION: RULE 1.5 [4-200]

~~or~~ unconscionable or illegal fee.

(Bb) Unconscionability of a fee shall be determined on the basis of all the facts and circumstances existing at the time the agreement is entered into except where the parties contemplate that the fee will be affected by later events. ~~Among the~~ The factors to be considered, ~~where appropriate,~~ in determining the ~~conscionability~~ unconscionability of a fee ~~are~~ include without limitation the following:

(1) whether the lawyer engaged in fraud* or overreaching in negotiating or setting the fee;

(2) whether the lawyer has failed to disclose material facts;

(43) ~~The~~ the amount of the fee in proportion to the value of the services performed.;

(24) ~~The~~ the relative sophistication of the ~~member~~ lawyer and the client.;

(35) ~~The~~ the novelty and difficulty of the questions involved, and the skill requisite to perform the legal service properly.;

(46) ~~The~~ the likelihood, if apparent to the client, that the acceptance of the particular employment will preclude other employment by the ~~member~~ lawyer;

(57) ~~The~~ the amount involved and the results obtained.;

(68) ~~The~~ the time limitations imposed by the client or by the circumstances.;

(79) ~~The~~ the nature and length of the professional relationship with the client.;

(810) ~~The~~ the experience, reputation, and ability of the ~~member or members~~ lawyer or lawyers performing the services.;

(911) ~~Whether~~ whether the fee is fixed or contingent.;

(4012) ~~The~~ the time and labor required.;

(44) ~~The~~ 13) whether the client gave informed consent* ~~of the client~~ to the fee.

(c) A lawyer shall not enter into an arrangement for, charge, or collect:

(1) any fee in a family law matter, the payment or amount of which is contingent upon the securing of a dissolution or declaration of nullity of a marriage or upon the amount of spousal or child support, or property settlement in lieu thereof; or

(2) a contingent fee for representing a defendant in a criminal case.

COMMISSION PROVISIONAL REPORT AND RECOMMENDATION: RULE 1.5 [4-200]

- (d) A lawyer may make an agreement for, charge, or collect a fee that is denominated as “earned on receipt” or “non-refundable,” or in similar terms, only if the fee is a true retainer and the client agrees in writing* after disclosure that the client will not be entitled to a refund of all or part of the fee charged. A true retainer is a fee that a client pays to a lawyer to ensure the lawyer’s availability to the client during a specified period or on a specified matter, but not to any extent as compensation for legal services performed or to be performed.
- (e) A lawyer may make an agreement for, charge, or collect a flat fee for specified legal services as long as the lawyer performs the agreed upon services. A flat fee is a fee which constitutes complete payment for legal fees to be performed in the future for a fixed sum regardless of the amount of work ultimately involved and which may be paid in whole or in part in advance of the lawyer providing those services.

Comment

Prohibited Contingent Fees

[1] Paragraph (c)(1) does not preclude a contract for a contingent fee for legal representation in connection with the recovery of post-judgment balances due under child or spousal support or other financial orders.

Payment of Fees in Advance of Services

[2] When a lawyer-client relationship terminates, the lawyer must refund the unearned portion of a fee. See Rule [1.16(e)(2)].

Division of Fee

[3] A division of fees among lawyers is governed by Rule 1.5.1 [2-200].

V. OCTC / STATE BAR COURT COMMENTS

• Jayne Kim, OCTC, 9/2/2015:

1. California uses the term “unconscionable” in rule 4-200, regarding prohibited legal fees. Most other jurisdictions use the term “unreasonable.” California should adopt the “unreasonable” standard. Business and Professions Code, sections 6147 and 6148, also use the term “reasonable fee.”
2. The term “unconscionable” is archaic and has been interpreted to permit the charging and collection of a fee that is unreasonable, as long as it is not shockingly so. Case law, however, requires that “[a]ttorney fee agreements ... be fair, reasonable and fully explained to the client.” (In the Matter of Kroff (Review Dept. 1998) 3 Cal. State Bar Ct. Rptr. 838, 851.) These requirements are sound and should be incorporated into rule 4-200.

COMMISSION PROVISIONAL REPORT AND RECOMMENDATION: RULE 1.5 [4-200]

3. OCTC supports amending the rule to prohibit unreasonable expenses. Model Rule 1.5 and many other jurisdictions currently prohibit unreasonable expenses.
 4. This rule, or rule 3-700, should explain the meaning of a “true retainer” and prohibit lawyers from charging non-refundable fees. A true retainer is a fee paid to secure a lawyer’s availability over time. Such a fee can be non-refundable because the fee is earned by the lawyer making himself or herself available, not by performing legal services. Fees paid in advance for the performance of legal services, however, must be refunded if the legal services are not performed. Flat fees also must be earned by performing services.
 5. Modification of fee agreements should require compliance with rule 3-300 regarding adverse interests. A lawyer holds a position of trust and has a fiduciary duty vis-a-vis his or her client. Compliance with rule 3-300 will help prevent lawyers from abusing their position and overreaching when renegotiating a fee agreement.
 6. OCTC is not in favor of cross-referencing Business and Professions Code, sections 6147 and 6148. Instead, rule 4-200 should state that a lawyer may be disciplined for failing to have a written fee agreement with the client. Written fee agreements protect the public and are part of a lawyer’s duty to communicate significant developments relating to his or her employment.
 7. Rule 4-200 would provide greater guidance if it added additional factors to the list of criteria to be analyzed, set forth in subsection (c). Additional factors could include whether the fee involves an element of fraud or overreaching by the lawyer; whether the client consented to or authorized the legal service; whether the lawyer fully explained the fee agreement to the client and/or the client understood the terms of fee agreement; and whether the lawyer charged the client for clerical or non-legal services at the same rate as legal services.
- **State Bar Court:** No comments received from State Bar Court.

VI. COMPARISON OF PROPOSED RULE TO APPROACHES IN OTHER JURISDICTIONS (NATIONAL BACKDROP)

South Dakota Rule 1.5 is identical to Model Rule 1.5:

South Dakota Rule 1.5 Fees

(a) A lawyer shall not make an agreement for, charge, or collect an unreasonable amount for fees or expenses. The factors to be considered in determining the reasonableness of a fee include the following:

- (1) the time and labor required, the novelty and difficulty of the questions involved, and the skill requisite to perform the legal service properly;
- (2) the likelihood, if apparent to the client, that the acceptance of the particular employment will preclude other employment by the lawyer;

COMMISSION PROVISIONAL REPORT AND RECOMMENDATION: RULE 1.5 [4-200]

- (3) the fee customarily charged in the locality for similar legal services;
- (4) the amount involved and the results obtained;
- (5) the time limitations imposed by the client or by the circumstances;
- (6) the nature and length of the professional relationship with the client;
- (7) the experience, reputation, and ability of the lawyer or lawyers performing the services;
and
- (8) whether the fee is fixed or contingent.

(b) The scope of the representation and the basis or rate of the fee and expenses for which the client will be responsible shall be communicated to the client, preferably in writing, before or within a reasonable time after commencing the representation, except when the lawyer will charge a regularly represented client on the same basis or rate. Any changes in the basis or rate of the fee or expenses shall also be communicated to the client.

(c) A fee may be contingent on the outcome of the matter for which the service is rendered, except in a matter in which a contingent fee is prohibited by paragraph (d) or other law. A contingent fee agreement shall be in writing signed by the client and shall state the method by which the fee is to be determined, including the percentage or percentages that shall accrue to the lawyer in the event of settlement, trial or appeal; litigation and other expenses to be deducted from the recovery; and whether such expenses are to be deducted before or after the contingent fee is calculated. The agreement must clearly notify the client of potential expenses for which the client will be liable whether or not the client is the prevailing party. Upon conclusion of a contingent fee matter, the lawyer shall provide the client with a written statement stating the outcome of the matter and, if there is a recovery, showing the remittance to the client and the method of its determination.

(d) A lawyer shall not enter into an arrangement for, charge, or collect:

- (1) any fee in a domestic relations matter, the payment or amount of which is contingent upon the securing of a divorce or upon the amount of alimony or support, or property settlement in lieu thereof; or
- (2) a contingent fee for representing a defendant in a criminal case.

(e) A division of a fee between lawyers who are not in the same firm may be made only if:

- (1) the division is in proportion to the services performed by each lawyer or each lawyer assumes joint responsibility for the representation;
- (2) the client agrees to the arrangement, including the share each lawyer will receive, and the agreement is confirmed in writing; and
- (3) the total fee is reasonable.

COMMISSION PROVISIONAL REPORT AND RECOMMENDATION: RULE 1.5 [4-200]

The ABA State Adoption Chart for the ABA Model Rule 1.5, which is the counterpart to current rule 4-200, is posted at:

- http://www.americanbar.org/content/dam/aba/administrative/professional_responsibility/mrpc_1_5.pdf
- Four states have adopted Model Rule 1.5 verbatim.¹ Eighteen jurisdictions have adopted a slightly modified version of Model Rule 1.5.² Twenty-nine states have adopted a version of the rule that is substantially different to Model Rule 1.5.³
- However, as discussed in Section VII.A.4, below, only four jurisdictions besides California have rejected the Model Rule's "unreasonable" standard.

VII. CONCEPTS ACCEPTED/REJECTED; CHANGES IN DUTIES; NON-SUBSTANTIVE CHANGES; ALTERNATIVES CONSIDERED

A. Concepts Accepted (Pros and Cons):

1. Change the rule number to correspond to the ABA Model Rules numbering and formatting (e.g., lower case letters)
 - Pros: It will facilitate the ability of lawyers from other jurisdictions who are authorized to practice in California, (see current rule 1-100(D)(1), which recognizes that reality, and rules such as the rule for *pro hac vice* admission, Rule of Court 9.40) to find the California rule corresponding to their jurisdiction's rule, thus permitting ease of determining whether California imposes different duties. It will also facilitate the ability of California lawyers to research case law and ethics opinions that address corresponding rules in other jurisdictions, which would be of assistance in complying with duties, particularly when California does not have such authority interpreting the California rule. As to the "Con" that there is a large body of case law that cites to the current rule numbers, the rule numbering was drastically changed in 1989 and there has been no apparent adverse effect. A similar change in rule numbering of the Rules of Court was implemented in 2007, also with no apparent adverse effect.
 - Cons: There is a large body of case law that cites to the current rule numbers and California lawyers are presumed to be familiar with that numbering system.
2. Substitute the term "lawyer" for "member".
 - Pros: The current Rules' use of "member" departs from the approach taken in the

¹ The four states are: New Mexico, Rhode Island, South Dakota, and Utah.

² The eighteen jurisdictions are: Delaware, District of Columbia, Hawaii, Idaho, Illinois, Indiana, Iowa, Maryland, Mississippi, Missouri, Montana, Nebraska, New Jersey, Oklahoma, Tennessee, Vermont, West Virginia, and Wyoming.

³ The twenty-nine states are: Alabama, Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Florida, Georgia, Kansas, Kentucky, Louisiana, Maine, Massachusetts, Michigan, Minnesota, Nevada, New Hampshire, New York, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, South Carolina, Texas, Virginia, Washington, and Wisconsin.

COMMISSION PROVISIONAL REPORT AND RECOMMENDATION: RULE 1.5 [4-200]

rules in every other jurisdiction, all of which use the term lawyer. The Rules apply to all non-members practicing law in the State of California by virtue of a special or temporary admission. For example, those eligible to practice *pro hac vice* or as military counsel. (See e.g. rules 9.40, 9.41, 9.42, 9.43, 9.44, 9.45, 9.46, 9.47, and 9.48 of the California Rules of Court.)

- Cons: Retaining “member” would carry forward a term that has been in use in the California Rules for decades.
3. Title: Change title to include “expenses” as well as fees. Drafting team consensus.
- Pros: Changed title will more accurately describe the recommended scope of the rule, i.e., to include a prohibition on making an agreement for, charging or collecting an unconscionable fee or internal expense. (See paragraph 5, below.)
 - Cons: None identified. (But see paragraph 5, Cons, below.)
4. Retain the standard in current rule 4-200, i.e., unconscionability as opposed to Model Rule 1.5’s “unreasonable” standard. Drafting team consensus.
- Pros: First, retaining the unconscionability standard will carry forward the public policy rationale stated over 80 years ago by the Supreme Court in *Herrscher v. State Bar* (1934) 4 Cal.2d 399, 402-403 [49 P.2d 832]:

“In the few cases where discipline has been enforced against an attorney for charging excessive fees, there has usually been present some element of fraud or overreaching on the attorney's part, or failure on the attorney's part to disclose the true facts, so that the fee charged, under the circumstances, constituted a practical appropriation of the client's funds under the guise of retaining them as fees.

Generally speaking, neither the Board of Governors nor this court can, or should, attempt to evaluate an attorney's services in a quasi-criminal proceeding such as this, where there has been no failure to disclose to the client the true facts or no overreaching or fraud on the part of the attorney. *It is our opinion that the disciplinary machinery of the bar should not be put into operation merely on the complaint of a client that a fee charged is excessive, unless the other elements above mentioned are present.*” (Emphasis added) (Citations omitted).

Second, the public is provided sufficient protection against avaricious lawyers who charge “unreasonable” fees through the civil court system and California’s unique system of mandatory fee arbitration. (See Bus. & Prof. Code § 6200 et seq. Put another way, rather than bog down the discipline system with ordinary fee disputes, the law provides a client with other forums, in particular mandatory fee arbitration, to contest an unreasonable fee. In any event, in extreme cases such as those described above, the public is further protected through imposing discipline on lawyers who charge, contract for or collect an unconscionable fee.

Third, this is a disciplinary rule and lawyers should not be disciplined for charging what can be determined in hindsight to have been an “unreasonable” fee. The unconscionable standard provides a clearer disciplinary standard, consistent with the

COMMISSION PROVISIONAL REPORT AND RECOMMENDATION: RULE 1.5 [4-200]

Commission's charge to draft articulable standards of discipline.

- Cons: The reasonableness standard has been adopted in nearly every jurisdiction.⁴ Rejecting an unreasonable standard, which has been adopted in every jurisdiction except California, Massachusetts and Texas, and retaining a unconscionability standard falls short of the Commission's charge to protect the public and promote confidence in the legal profession and administration. It sends a message that the profession tolerates its members charging an unreasonable fee. This is an area where the Commission should reassess the continued viability of *Herrscher*. The concerns the Supreme Court expressed 75 years ago about the efficacy of inquiring into the reasonableness of fees should not control the debate for a self-regulating profession in this sensitive area of lawyer-client relations.

5. Include a prohibition on charging an unconscionable "internal expense". Drafting team consensus.

- Pros: The amount of expenses charged a client can constitute a large part of the client's total monetary obligations to a lawyer. A prohibition on charging an unconscionable expense adds language that clarifies the lawyer's obligation. It should both educate lawyers as to their duties and facilitate the imposition of discipline, where applicable. RRC1 recommended adding a similar prohibition.

The "internal" limitation has been added because the drafting team was concerned that some expenses incurred because external expenses such as outside consultants and experts are often beyond the ability of a lawyer to control. RRC1 recommended a similar limitation.

The concept of expenses was added to the Model Rules as part of the Ethics 2000 revisions. Only Kansas and Texas do not include an express prohibition on charging unreasonable or excessive expenses.

- Cons: The concept of an unconscionable internal expense would be new and potentially confusing. Conceptually, if a lawyer's internal expense effectively functions as a hidden profit center, then that conduct would fit the existing rubric of an unconscionable fee charged without the client's consent. Compare the existing State Bar Court approach in *In the Matter of Kroff* (Review Dept. 1998) 3 Cal. State Bar Ct. Rptr. 838, at pp. 851-852 [finding that a lawyer's practice of charging a flat periodic fee or lump sum to cover disbursements is not a violation of Rule 4-200 or an act of moral turpitude provided the client consents and the amount at issue is not unconscionable].

6. Include an express definition of unconscionable in paragraph (b). Drafting team consensus.

- Pros: Paragraph (b) provides a succinct explanation of what is meant by the term

⁴ Only California, Massachusetts, New York, North Carolina and Texas have not adopted the Model Rules' standard, the latter four having adopted (or more accurately continued from the ABA Code of Professional Responsibility) an "excessive" or "clearly excessive" standard. Michigan, Ohio and Oregon have also carried forward the "excessive" standard but define "excessive" as in excess of reasonable, so they effectively have adopted a reasonable standard.

COMMISSION PROVISIONAL REPORT AND RECOMMENDATION: RULE 1.5 [4-200]

“unconscionable fee. The language of the definition is taken from California decisional law, including two Supreme Court cases. See *Herrscher v. State Bar* (1934) 4 Cal.2d 399, 402 [49 P.2d 832]; *Goldstone v. State Bar* (1931) 214 Cal. 490 [6 P.2d 513]. Paragraph (b) can be used in conjunction with the factors set forth in paragraph (c) as an analytical framework for determining whether a fee is unconscionable. The last sentence, carried forward from current rule 4-200(A), specifies the time at which the unconscionability of a fee is to be determined.

- Cons: A definition of “unconscionable fee” is unnecessary. The phrase “unconscionable fee” is sufficiently defined by case law and has been found not to be unconstitutionally vague.
7. In paragraph (c), retain the 11 factors for determining unconscionability that are found in current rule 4-200(B) and include in the introduction of paragraph (c) an express statement that the factors are to be considered without limitation. Drafting team consensus.
- Pros: There is no evidence that the factors, which have been included in the rule since 1975, have been a problem in determining the unconscionability of a fee. The statement that the factors to be considered are without limitation conforms to an OCTC comment. With respect to the similarity of the factors to those used in the Model Rule for determining the reasonableness of a fee, the additional three factors unique to the California rule all relate to unconscionability, (see “Cons”). Further, the consideration of other factors, such as those identified in paragraph (b), will further distinguish the provision from the Model Rule.
 - Cons: There is some confusion whether the factors can be used to determine unconscionability as they are nearly identical to those stated in Model Rule 1.5 for determining the reasonableness of the fee. The only different factors are: (1) the amount of the fee in proportion to the value of the services performed; (2) the relative sophistication of the client; and (3) the informed consent of the client to the fee.
8. Add new paragraph (d), derived from Model Rule 1.5(d), which identifies two types of contingent fee arrangements that are prohibited: certain family law matters and criminal matters. Drafting team consensus.
- Pros: Although there are other kinds of contingent fee cases that might be prohibited, the two kinds of cases regulated under Model Rule 1.5(d) have traditionally been viewed as implicating important Constitutional rights or public policy. See, e.g., Restatement (3d) Law of Lawyers § 35, comments f.(i), f.(ii) and g. In the family law matters, California has a strong public policy of promoting reconciliation and maintaining the family unit. Because a lawyer who is being paid on a contingent basis would recover a fee only if the marriage is dissolved and property apportioned, permitting contingent fees in these cases would undermine the California policy.

In criminal cases, a lawyer who is being paid on a contingent basis would recover a fee only if the client is found not guilty. That would create a conflict for a lawyer if the best interests of the client, in light of the evidence, warrant the client entering a plea. Focusing on these two types of cases where public policy strongly opposes

COMMISSION PROVISIONAL REPORT AND RECOMMENDATION: RULE 1.5 [4-200]

- contingent fees should not permit the inference that any other kind of contingent fee matter is permitted.
- Cons: Limiting the prohibition on contingent fees to two kinds of legal matters implies that contingent fees are permitted in any other kind of legal matter, which may not be true.
9. Add new paragraph (e), which prohibits denominating a fee as “earned on receipt” or “nonrefundable” except in the case of a true retainer, i.e., where the fee is paid to assure the availability of the lawyer. Drafting team consensus.
- Pros: Paragraph (e) is an attempt to balance a number of competing interests: a lawyer’s interest, on the one hand, of being assured of payment when relinquishing an opportunity for other employment and a client’s interest in not forfeiting a flat fee in the event the client changes his or her mind and wants to discharge the lawyer. At bottom, paragraph (e) recognizes that except under specific circumstances, a flat fee is not earned until services have been provided. Paragraph (e) states the nonrefundable/ earned on receipt fee arrangement that traditionally has been recognized in the profession and is already found in current rule 3-700(D)(2). Paragraph (e) also includes a description of what constitutes a “true retainer” that is more accurate than the language used in current Rule 3-700(D)(2), which simply states that a true retainer is a “fee paid solely for the purpose of ensuring the availability of the member for the matter.”
 - Cons: The proposed new description of “true retainer” differs from the longstanding language used in Rule 3-700(D)(2). There does not appear to be any disciplinary data indicating that this language should be changed.
10. Add new paragraph (f) that expressly provides that a flat fee is permissible only if the lawyer provides the agreed upon services. Drafting team consensus.
- Pros: Expressly states a basic concept in contract law: except for true retainers, an advance fee is not earned unless the lawyer provides the services for which he or she was retained.
 - Cons: Many lawyers, e.g., those in criminal law practice, typically have fee arrangements with clients that are denominated as non-refundable or earned-on-receipt. Their view is that the fee can be placed in the lawyer’s operating account and be protected from forfeiture proceedings. This issue is addressed in proposed Rule 1.15(b).
11. Add new Comment [1], which provides examples of illegal fees. Drafting team consensus.
- Pros: Unlike “unconscionable fee,” the concept of an illegal fee is not susceptible to a black letter definition and is better described by providing examples in a comment. Although the concept might be found in case law, including an explanation of the concept in a comment will provide important guidance on the types of fee arrangements that are illegal and can subject a lawyer to discipline.
 - Cons: None identified.
12. Add new Comment [2], which cross-references Bus. & Prof. Code §§ 6147 and 6148. Drafting team consensus.

COMMISSION PROVISIONAL REPORT AND RECOMMENDATION: RULE 1.5 [4-200]

- Pros: In Model Rule 1.5, paragraphs (b) and (c) set forth the requirements for written fee arrangements in general and contingent fee arrangements, respectively. In California, those requirements are addressed in §§ 6148 and 6147, respectively. Under those statutes, the client already has a remedy for a lawyer's violation of the statute: having the contract voided. Sections 6147(b), 6148(c). The drafting team has placed the reference in a comment; it does not believe that a violation of either section should subject a lawyer to discipline under this Rule in addition to the remedy provided in the statute. RRC1 made a similar recommendation.
 - Cons: See discussion below in section VII.B.3 of a concept rejected relating to OCTC's September 2, 2015 memorandum in which OCTC states: "OCTC is not in favor of cross-referencing Business and Professions Code, sections 6147 and 6148. Instead, rule 4-200 should state that a lawyer may be disciplined for failing to have a written fee agreement with the client. Written fee agreements protect the public and are part of a lawyer's duty to communicate significant developments relating to his or her employment."
13. Add new Comment [3], derived from Model Rule 1.5, Cmt. [6], which explains that some contingent fee arrangements related to family law are permitted. Drafting team consensus.
- Pros: Recognizes certain post-judgment contingent fee arrangements in family law that permitted because they do not implicate the policies underlying the prohibition. RRC1 made a similar recommendation.
 - Cons: None identified.
14. Add new Comment [4] which recognizes that a lawyer may not be able to comply with paragraph (e)'s writing requirement in an emergency. Drafting team consensus.
- Pros: This is an important qualification on the writing requirement for flat fee arrangements. These arrangements are often used in a criminal law practice, where lawyers are often retained on short notice, making the execution of a written agreement impracticable initially.
 - Cons: This comment arguably authorizes an oral contract that would create a lawyer-client relationship, at least until such time that a subsequent written agreement is entered into by the parties. Technically, the State Bar Act's requirement for a written fee agreement (for services where the total expense to a client will exceed \$1,000) has no comparable exception. Can a Rule of Professional Conduct establish an exception to a public protection statutory scheme governing contracts for legal services?
15. Add new Comment [5] which provides cross-references to the rules concerning termination and trust accounts. Drafting team consensus.
- Pros: The cross-references provide important information on the rules that would govern in the event there are unearned fees upon termination or there is a fee dispute, common occurrences in practice.
 - Cons: None identified.
16. Add new Comment [6] which provides a cross-reference to the fee splitting rule. Drafting team consensus.

COMMISSION PROVISIONAL REPORT AND RECOMMENDATION: RULE 1.5 [4-200]

- Pros: In nearly every other jurisdiction, the provision that governs fee divisions among lawyers is in the jurisdiction's counterpart to Model Rule 1.5. In California, the fee division provision is a separate rule. Providing a cross-reference to California's separate rule is appropriate.
- Cons: None identified.

B. Concepts Rejected (Pros and Cons):

1. Include a provision that addresses modification of fee agreements.
 - Pros: A rule that governs fee arrangements is the logical place for such a provision. In fact, RRC1 drafted such a provision at the request of the Board and included it in its proposed Rule 1.5.⁵ In addition, in OCTC's September 2, 2015 memorandum

⁵ RRC1's proposed rule paragraph provided:

(g) A lawyer shall not make a material modification to an agreement by which the lawyer is retained by the client that is adverse to the client's interests unless the client is either represented with respect to the modification by an independent lawyer or is advised in writing by the lawyer to seek the advice of an independent lawyer of the client's choice and is given a reasonable opportunity to seek that advice.

The rule paragraph was accompanied by several comments:

[3] Paragraph (g) imposes a specific requirement with respect to modifications of agreements by which a lawyer is retained by a client, when the amendment is material and is adverse to the client's interests. A material modification is one that substantially changes a significant term of the agreement, such as the lawyer's billing rate or manner in which fees or costs are determined or charged. A material modification is adverse to a client's interests when the modification benefits the lawyer in a manner that is contrary to the client's interest. Increases of a fee, cost, or expense pursuant to a provision in a pre-existing agreement that permits such increases are not modifications of the agreement for purposes of paragraph (g). However, such increases may be subject to other paragraphs of this Rule, or other Rules or statutes.

[3A] Whether a particular modification is material and adverse to the interest of the client depends on the circumstances. For example a modification that increases a lawyer's hourly billing rate or the amount of a lawyer's contingency fee ordinarily is material and adverse to a client's interest under paragraph (g). On the other hand, a modification that reduces a lawyer's fee ordinarily is not material and adverse to a client's interest under paragraph (g). A modification that extends the time within which a client is obligated to pay a fee ordinarily is not material and adverse to a client's interests, particularly when the modification is made in response to a client's adverse financial circumstances.

[3B] In general, the negotiation of an agreement by which a lawyer is retained by a client is an arms length transaction. *Setzer v. Robinson* (1962) 57 Cal.2d 213 [18 Cal.Rptr. 524]. Once a lawyer-client relationship has been established, the lawyer owes fiduciary duties to the client that apply to the modification of the agreement that are in addition to the requirements in Paragraph (g). Lawyers should consult case law and ethics opinions to ascertain their professional responsibilities with respect to

COMMISSION PROVISIONAL REPORT AND RECOMMENDATION: RULE 1.5 [4-200]

- providing comments on Rule 4-200, OCTC states: “Modification of fee agreements should require compliance with rule 3-300 regarding adverse interests. A lawyer holds a position of trust and has a fiduciary duty vis-a-vis his or her client. Compliance with rule 3-300 will help prevent lawyers from abusing their position and overreaching when renegotiating a fee agreement.”
- Cons: The negotiations by which a lawyer and client enter a fee agreement is an arms-length transaction. Current rule 3-300, Discussion ¶. 1, provides that rule 3-300 “is not intended to apply to the agreement by which the member is retained by the client, unless the agreement confers on the member an ownership, possessory, security, or other pecuniary interest adverse to the client.” Only under the latter described circumstances should special conditions be imposed on a fee modification. Those conditions are already provided in rule 3-300, which is the appropriate place to address the issue.
2. Include in the rule the general analytical framework for determining the unconscionability of a contract, an inquiry into the procedural and substantive unconscionability of a contract. (See, e.g., *Armendariz v. Foundation Health Psychcare Services, Inc.* (2000) 24 Cal.4th 83 [99 Cal.Rptr.2d 745]; *Cotchett, Pitre & McCarthy v. Universal Paragon Corp.* (2010) 187 Cal.App.4th 1405, 114 Cal.Rptr.3d 781.)
- Pros: Would bring the unconscionability inquiry in lawyer fee contracts in line with general contract law.
 - Cons: Including such a framework is unnecessary as there is no indication that the current analytical framework involving the consideration of a number of non-exclusive factors, does not provide an effective means for determining unconscionability of a fee.
3. Include a provision in the rule that would subject a lawyer to discipline for failure to comply with the writing and other requirements in Bus. & Prof. Code §§ 6147 and 6148. (See 9/2/15 OCTC Memo to Chair & Commission, at pp. 3-4.)
- Pros: Written fee agreements protect the public and are part of a lawyer’s duty to communicate significant developments relating to his or her employment. A lawyer should be subject to discipline for failing to comply with those duties.

modifications to an agreement by which a client retains a lawyer's services. See, e.g., *Ramirez v. Sturdevant* (1994) 21 Cal.App.4th 904, 913 [26 Cal.Rptr.2d 554]; *Berk v. Twentynine Palms Ranchos, Inc.* (1962) 201 Cal.App.2d 625 [20 Cal.Rptr. 144]; *Carlson, Collins, Gordon & Bold v. Banducci* (1967) 257 Cal.App.2d 212 [64 Cal.Rptr.915]. Depending on the circumstances, other rules and statutes also may apply to the modification of an agreement by which a lawyer is retained by a client, including, without limitation, Rule 1.4 (Communication), Rule 1.7 (Conflicts of Interest), and Business and Professions Code section 6106.

[3C] A modification is subject to the requirements of Rule 1.8.1 when the modification confers on the lawyer an ownership, possessory, security or other pecuniary interest adverse to the client, such as when the lawyer obtains an interest in the client’s property to secure the amount of the lawyer’s past due or future fees.

COMMISSION PROVISIONAL REPORT AND RECOMMENDATION: RULE 1.5 [4-200]

- Cons: There is no reason to add a discipline element to the sanctions for noncompliance provided under §§ 6147 and 6148. Voiding the agreement and limiting the lawyer to recovery of the reasonable value of his or her services is a sufficient disincentive to a lawyer's noncompliance with the statutes' written and other requirements, so the public should be protected.

C. Changes in Duties/Substantive Changes to the Current Rule:

1. Added prohibition on contracting for, charging or collecting an unconscionable or illegal internal expense. (See Section VIIA.5, above.)
2. Adding an express prohibition in paragraph (d) of certain types of contingent fee agreements. (See Section VIIA.8, above.)
3. In paragraph (e), expressly permitting a lawyer to denominate a fee as "earned-on-receipt" or "nonrefundable" only if it is a true retainer. (See Section VIIA.9, above.)
4. In paragraph (f), expressly permitting a lawyer to contract for, charge or collect a flat fee, which is paid in advance, only so long as the lawyer provides the agreed upon services. (See Section VIIA.o, above.)

D. Non-Substantive Changes to the Current Rule:

1. Include definition of "unconscionable fee" in paragraph (b). (See Section VIIA.6, above.)

E. Alternatives Considered:

1. Instead of recommending proposed paragraphs (e) and (f) concerning true retainers and flat fees, respectively, take the same approach recommended by RRC1 (but which was ultimately rejected by the Board).⁶

⁶ The first Commission addressed true retainers and flat fees in two separate paragraphs, which provided:

(e) When permitted by paragraph (f), a lawyer may make an agreement for, charge, or collect a fee that is denominated as "earned on receipt" or "non-refundable," or in similar terms, but only if the client is advised in writing that the client nevertheless may discharge the lawyer at any time and may or may not be entitled to a refund of all or part of the fees charged, and the client agrees to the arrangement in a writing signed by the client.

(f) A lawyer is permitted to denominate a fee as "earned on receipt" or "nonrefundable" only in making an agreement for the following types of fee arrangements:

(1) a true retainer, which is a fee that a client pays to a lawyer to ensure the lawyer's availability to the client during a specified period or on a specified matter, but not as compensation for legal services performed or to be performed.

(2) a flat fee for specified legal services, which constitutes complete payment for those services and may be paid in whole or in part in advance of the lawyer providing the services.

The provisions were accompanied by several comments:

[6A] Paragraph (e) prohibits the designation of a fee as "earned on receipt," or as "nonrefundable," or in similar terms unless the required disclosures concerning the

client's right to discharge the lawyer and the potential for a refund are made. The unconscionability requirement of paragraph (a) and the application of the factors in paragraph (c) may mean that a client is entitled to a refund of an advance fee payment even though it might have been denominated as "nonrefundable," "earned upon receipt" or in similar terms that imply the client would never become entitled to a refund. So that a client is not misled by the use of such terms, paragraph (e) requires certain minimum disclosures that must be included in the written fee agreement. This does not mean the client will always be entitled to a refund, nor does it determine how any refund should be calculated, but merely requires that the client be advised of the possibility of the entitlement to a refund. In addition to a determination that a fee is unconscionable, a client's entitlement to a refund might be based upon: (1) a determination that all or a portion of the fees paid have not been earned; or (2) some other failure of consideration, such as a natural disaster that destroys the lawyer's law office making it impossible for the lawyer to render the agreed upon legal services. The foregoing examples are not intended to be a comprehensive statement of all possible bases for a client's entitlement to a refund. Although there is always a potential for a refund because of subsequent events, paragraph (e) does not prohibit a lawyer from making an agreement for a fee which is earned upon receipt so long as the required disclosures are made in a writing signed by the client. As indicated by case law, however, a client may be entitled to a refund notwithstanding how the fees paid might have been characterized. See, e.g., *Matthew v. State Bar* (1989) 49 Cal.3d 784 [263 Cal.Rptr. 660]; *In re Matter of Lais* (Rev. Dept. 1998) 3 Cal. State Bar Ct. Rptr. 907. While discipline may result from a failure to refund fees, a primary forum for the resolution of fee dispute issues is mandatory fee arbitration under the State Bar Act. See Business and Professions Code sections 6200 et. seq. Nothing in this Rule is intended to prejudge the outcome of fee arbitration proceedings as this Rule, like any law, must be applied to the facts of a particular matter.

* * *

[7] Every fee agreed to, charged, or collected, including a fee under paragraph (f)(1) or (f)(2), is subject to paragraph (a) and may not be unconscionable.

[8] Paragraph (f)(1) describes a true retainer, which is sometimes known as a "general retainer," or "classic retainer." A true retainer secures availability alone, that is, it presumes that the lawyer is to be additionally compensated for any actual work performed. Therefore, a payment purportedly made to secure a lawyer's availability, but that will be applied to the client's account as the lawyer renders services, is not a true retainer under paragraph (f)(1). In addition to the statements required under paragraph (e), the written true retainer agreement should specify the time period or purpose of the lawyer's availability and that the client will be separately charged for any services provided. Concerning the lawyer's obligations with respect to the deposit of a true retainer in a trust account, see Rule 1.15, Comments [8] and [9].

[9] Paragraph (f)(2) describes a fee structure that is known as a "flat fee". A flat fee constitutes complete payment for specified legal services, and does not vary with the amount of time or effort the lawyer expends to perform or complete the specified services.

**COMMISSION PROVISIONAL REPORT AND RECOMMENDATION:
RULE 1.5 [4-200]**

VIII. COMMISSION RECOMMENDATION FOR BOARD ACTION

RECOMMENDATION:

That t the Board of Trustees of the State Bar of California adopt proposed amended Rule 1.5 [4-200] in the form stated above for purposes of public comment authorization as a part of the Commission's proposed comprehensive revisions to the rules.

IX. FINAL COMMISSION VOTE/ACTION

Date of Vote: September 26, 2015

Action: Approve Rule 1.5 [4-200] as revised during the meeting.

Vote: 13 (yes) – 0 (no) – 0 (abstain)