Five Years of Arizona's ABS Framework Adds Layers of Oversight, Doesn't Remove Them

Early analysis suggests the ABS conversation is shifting from theoretical concerns to evidence-based outcomes

By Alex Chucri

A 275-year-old institution, the legal services market remains highly fragmented and structurally constrained despite representing one of the oldest and largest professional services sectors in the United States. Traditional law firms continue to operate under partnership models that have changed little in decades, limiting access to capital deployment, operational scalability, and investment in modern technology infrastructure. As client expectations evolve toward greater efficiency, transparency, and accessibility, many firms remain hindered by outdated structural and regulatory limitations. Concurrently, the explosive growth of alternative legal service providers (ALSPs) and unbundled legal services has not only increased options for consumers but also contributed to the widening gap between consumer demand and access to legal services.

Individuals and businesses increasingly expect technology-enabled experiences, integrated professional services, and more cost-effective legal solutions. Yet much of the legal industry remains dependent on labor-intensive operating models that restrict innovation and limit the ability to scale efficiently. Simultaneously, advances in artificial intelligence, workflow automation, and data-driven operations are rapidly reshaping how professional services can be delivered.

Other professional services industries have experienced similar inflection points. During the 1980s and 1990s, the accounting industry underwent significant consolidation as firms expanded beyond traditional partnership structures, invested heavily in technology and advisory capabilities, and evolved into globally integrated professional services organizations. More recently, the financial services industry has experienced comparable transformation as independent wealth management firms increasingly consolidated onto larger platforms capable of supporting compliance operations, integrated technology ecosystems, and enhanced client service models. In both industries, structural modernization fundamentally reshaped service delivery, operational efficiency, and ultimately, market competitiveness.

The legal profession, however, has remained largely insulated from comparable structural evolution due to ethical rules governing professional independence. Chief among them is the American Bar Association's Model Rule 5.4 titled "Professional Independence of a Lawyer."[1] The Model Rule has prohibited non-lawyer ownership in law firms, restricted fee-sharing arrangements with non-lawyers, and barred non-lawyer influence on legal judgement. Rooted in more than a century of legal ethics principles, Rule 5.4 was designed to protect the independence of professional legal judgement and prevent commercial interests from interfering with client representation.

In August 2020, Arizona became the first state in the nation to eliminate ABA Model Rule 5.4 and formally establish the Alternative Business Structure (ABS) framework, which took effect January 1,

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[1] MODEL RULES OF PRO. CONDUCT R. 5.4 (A.B.A. 2023).

2021 (Arizona Supreme Court order R-20-0034)[2]. Rather than removing oversight, Arizona legislators replaced a model of blanket prohibition with one centered on licensing, compliance, and structured regulatory accountability. Under the ABS framework, non-lawyers may hold economic interests or decision-making authority in law firms, but only under the supervision and approval of the Arizona Supreme Court and its regulatory bodies. Five years into implementation, Arizona's ABS framework has grown to include approximately 150 licensed entities, with no evidence of systemic ethical breakdowns or consumer harm attributable to the model.

In Arizona, regulatory approval of the ABS framework has been the catalyst of a broader structural evolution within the legal industry. With its passage, the state did not abandon the principle of professional independence; rather, it redesigned how that independence is protected and enforced. Under Arizona's ABS framework, non-lawyers may hold equity, share in profits, and participate in management decisions within law firms, but only under a system of licensing, compliance oversight, and ongoing regulatory supervision.[3]

ABS entities must be approved and licensed by the state, appoint compliance counsel, maintain ethical infrastructure and reporting procedures, and remain subject to ongoing regulatory review and potential discipline by the Arizona Supreme Court and its regulatory bodies. While a number of jurisdictions are actively considering measures to limit or roll back various approaches to legal-services reform, these efforts frequently proceed without empirical evidence of consumer harm and instead reflect a desire to constrain emerging competitors. By contrast, Arizona's five-year track record under its ABS framework offers real-world data the ethics concerns raised by opponents have not materialized as systemic problems and, in many cases, appear overstated. As a result, the debate in Arizona is shifting from theoretical concerns to observable outcomes.

Case in point:

Since implementation in 2021, Arizona's ABS program has steadily grown to include approximately 150 licensed entities as of March 2026,[4] reflecting both rapid market adoption and increasing confidence in the state's regulatory framework. The number of ABS licenses has grown from two approved in 2020, 15 licenses approved in 2021, 25 in 2022, and 25 in 2023. In 2024 (the most recent year for which we have data on both the number of ABS firms and the number of disciplinary actions against ABS lawyers), there were a total of 114 ABSs actively in operation throughout the state.[5]

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[2] *See* Ord. Amending the Ariz. Rules of the Sup. Ct. and the Ariz. Rules of Evidence, Ariz. Sup. Ct. No. R-20-0034 2 (Aug. 27, 2020).
[3] *See generally Alternative Business Structures (ABS) Frequently Asked Questions*, AZCOURTS.GOV, https://www.azcourts.gov/accesstolegalservices/Questions-and-Answers/abs [https://perma.cc/HQ2W-DG4T] (last visited July 3, 2026)
[4] University of Denver, *Alternative Business Structures Evaluation Blueprint*, IAALS, https://iaals.du.edu/projects/unlocking-legal-regulation/abs-evaluation-blueprint [https://perma.cc/QW6D-RX7Y] (last visited July 3, 2026).
[5] COMM. ON ALT. BUS. STRUCTURES, 2024 ANN. REP. 3 (2025).

Subject to multiple layers of oversight[6], including the Arizona Supreme Court, the Committee on Alternative Business Structures, firm-designated compliance lawyers, State Bar enforcement, and ongoing audit requirements, public reporting to date has not identified systemic violations or widespread consumer harm attributable to the ABS model. In fact, during the program's first three years, no ethics complaints were filed against ABS entities. Complaints were first reported in 2024; the State Bar initiated disciplinary action involving two ABS-affiliated attorneys[7]. While any disciplinary action is significant and appropriate oversight remains essential, the available data does not suggest the widespread ethical concerns or systemic consumer harm that many opponents raised when Arizona eliminated Rule 5.4.

Furthermore, although direct comparisons to traditional law firms are imperfect due to limited availability of attorney-level ABS staffing data, a preliminary analysis of 2024 disciplinary actions suggests that lawyers affiliated with ABS entities experienced disciplinary actions at a rate significantly below that of the broader Arizona attorney population. While additional data will be necessary to draw long-term conclusions, early results indicate that Arizona's regulatory framework is functioning largely as intended.

New, multidisciplinary operating models are made possible by the ABS framework. One such firm, 1787 Legal Group, is a Scottsdale, Arizona-based ABS designed to integrate comprehensive legal services within a unique operational structure. By allowing outside investment, business leadership, and capitalized growth previously unavailable in the legal sector, the ABS framework enables firms such as 1787 Legal Group to scale rapidly, adopt cutting-edge technology, support complex litigation matters, and pursue innovative service-delivery models that would have been difficult under traditional ownership restrictions. The model reflects a broader shift toward modernized legal service platforms capable of adapting more efficiently to evolving market demands while remaining subject to ongoing regulatory oversight and attorney accountability.

These multidisciplinary structures may also improve access to legal services by expanding operational efficiency, lowering administrative friction, and creating more client-centered experiences that align with evolving expectations for transparency, responsiveness, and affordability. In areas such as complex litigation, mass tort administration, and class action management — where coordination across legal, operational, and financial functions is often critical — the ability to integrate broader expertise within a regulated structure may create meaningful efficiencies for both firms and clients.

While many traditional law firms remain bound by legacy partnership constraints with limitations on outside investment, the ABS framework permits greater flexibility in capital formation, technology infrastructure, operational design, and talent acquisition. As legal services continue evolving alongside broader advances in AI, automation, and client-service expectations, Arizona's regulatory model may offer an early blueprint for how innovation and professional accountability can coexist within the modern legal marketplace.

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[6] *See generally* ARIZ. CODE OF JUD. ADMIN. § 7-209 (West, Westlaw with amendments received through May 1, 2026).

[7] COMM. ON ALT. BUS. STRUCTURES, *supra* note 5, at 7–8, 21.

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