

California's New Laws Targeting Nonclinical Influence on Healthcare

November 17, 2025

On October 6 and 11, 2025, California enacted two new statutes ([SB 351](#) and [AB 1415](#)) designed to limit the influence of nonclinical entities on the healthcare industry in the state – particularly, private equity groups, hedge funds and management services organizations.

Who is affected?

SB 351 applies to private equity groups and hedge funds “involved in any manner” with a physician or dental practice doing business in California (Practice), including as investors in a Practice or its assets.¹ Certain provisions expressly apply to entities controlled directly, in whole or in part, by a private equity group or hedge fund. The law applies regardless of a Practice’s form, including corporate entities of any kind. “Hedge fund” means a pool of funds managed by investors for the purpose of earning a return on those funds, regardless of the strategies used to manage the funds. Hedge funds include, but are not limited to, a pool of funds managed or controlled by private limited partnerships. “Private equity group” means an investor or group of investors who primarily engage in the raising or returning of capital and who invest, develop or dispose of specified assets.

The definitions of “hedge fund” and “private equity group” include certain exceptions, such as for hospitals, public agencies, and some passive investors and lenders. AB 1415 sets reporting requirements for a “noticing entity,” which it defines as including all of the following:

- A private equity group or hedge fund.
- A newly created business entity created for the purpose of entering into agreements or transactions with a healthcare entity.
- A management services organization.
- An entity that owns, operates or controls a provider, regardless of whether the provider is currently operating, providing health care services or has a pending or suspended license.²

The law also separately defines a hedge fund, a private equity group and a management services organization (MSO).

SB 351's core prohibitions

Private equity groups and hedge funds cannot interfere with the professional judgment of physicians or dentists in making healthcare decisions. This prohibition includes being responsible for overall patient care (including available treatment options) and determining the appropriateness of diagnostic tests, necessity of clinical referrals and consultations, and clinicians’ patient volume and hours worked.³

Private equity groups and hedge funds also cannot exercise control over, or be delegated the power to perform, specified activities. There is an exception to this prohibition if an unlicensed person or entity assists or consults with a Practice on such activities, provided the clinician retains ultimate responsibility or approval. These activities include:

- Owning or otherwise determining the content of patient medical records.
- Selecting, hiring or firing clinical staff based on clinical competency or proficiency.
- Setting parameters under which a Practice or its clinicians shall enter into contractual relationships with third-party payers.
- Setting the clinical competency or proficiency parameters under which a clinician enters into contractual relationships with other clinicians for the delivery of care.

- Making coding and billing decisions for patient care services.
- Approving a Practice's selection of medical equipment and medical supplies.

Contracts (or other agreements or arrangements) between a Practice and a private equity group or hedge fund – or an entity controlled directly, in whole or in part, by a private equity group or hedge fund – that affect clinical decision-making are prohibited. Specifically, a person or entity cannot be enabled to violate the above two prohibitions (i.e., interfere with the professional judgment of clinicians making healthcare decisions or exercise control over, or delegate powers to perform, specified activities). Any provision within a contract or other agreement that violates these prohibitions is void, unenforceable and against public policy.

A management contract between a Practice and a private equity group or hedge fund – or any entity controlled directly or indirectly, in whole or in part, by a private equity group or hedge fund – cannot include noncompete and non-disparagement clauses. These clauses are now considered void, unenforceable and against public policy. Contracts for the sale of real estate or other assets owned by a Practice to such entities also cannot contain these clauses (though an otherwise enforceable sale of business noncompete agreement remains unaffected so long as it does not operate as an employee noncompete agreement). In particular, the contracts cannot bar a Practice's providers from:

- Competing with such a Practice if the provider is terminated or resigns.
- Disparaging, opining or commenting on the Practice about issues involving quality of care, utilization of care, ethical or professional challenges in the practice of medicine or dentistry, or revenue-increasing strategies employed by the private equity group or hedge fund.⁴

AB 1415's core requirements

AB 1415 requires a "noticing entity," as defined above, to provide written notice to California's Office of Health Care Affordability (OHCA) of certain material agreements or transactions it enters into with a healthcare entity, an MSO, or an entity that owns or controls a healthcare entity or MSO. Specifically, any agreement/transaction that does either of the following must be reported:

- Sell, transfer, lease, exchange, option, encumber, convey or otherwise dispose of a material amount of the healthcare entity's or MSO's assets to one or more entities.
- Transfer control, responsibility or governance of a material amount of the assets or operations of the healthcare entity or MSO to one or more entities.⁵

MSOs are additionally subject to these reporting obligations for any such agreement/transaction it has with "any other entity." Further, MSOs join the ranks of payers, fully integrated delivery systems, and providers that are subject to ongoing research and evaluation by OHCA as part of its efforts to determine entities that significantly affect healthcare cost, quality, equity and workforce stability. OHCA is directed to establish requirements for MSOs to submit data and other information as necessary to carry out the functions of its office.

Notes

1. Cal. Health & Safety Code § 1191(a) (effective January 1, 2026).
2. See id. § 127507(h).
3. See id. § 1191(a)(1).
4. See id. § 1191(d)(3)(B). A nondisclosure clause for material nonpublic information about the private equity group or hedge fund that is not generally available to the public may remain in the contracts, unless it prohibits a disclosure either required by law or described here (with full text appearing in § 1191(d)(1)(B)).
5. See id. § 127507(c)(2)(A).

This content is provided for general informational purposes only, and your access or use of the content does not create an attorney-client relationship between you or your organization and Cooley LLP, Cooley (UK) LLP, or any other affiliated practice or entity (collectively referred to as "Cooley"). By accessing this content, you agree that the information provided does not constitute legal or other professional advice. This content is not a substitute for obtaining legal advice from a qualified attorney licensed in your jurisdiction, and you should not act or refrain from acting based on this content. This content may be changed without notice. It is not guaranteed to be complete, correct or up to date, and it may not reflect the most current legal developments. Prior results do not guarantee a similar outcome. Do not send any confidential information to Cooley, as we do not have any duty

to keep any information you provide to us confidential. When advising companies, our attorney-client relationship is with the company, not with any individual. This content may have been generated with the assistance of artificial intelligence (AI) in accordance with our AI Principles, may be considered Attorney Advertising and is subject to our [legal notices](#).

Key Contacts

Alexis Finkelberg Bortniker San Diego	abortniker@cooley.com +1 858 550 6050
Sunny J. Levine Colorado	sjlevine@cooley.com +1 305 724 0540
Sarah Iacomini-Guzick Miami	siacominiguzick@cooley.com +1 305 724 0546

This information is a general description of the law; it is not intended to provide specific legal advice nor is it intended to create an attorney-client relationship with Cooley LLP. Before taking any action on this information you should seek professional counsel.

Copyright © 2023 Cooley LLP, 3175 Hanover Street, Palo Alto, CA 94304; Cooley (UK) LLP, 22 Bishopsgate, London, UK EC2N 4BQ. Permission is granted to make and redistribute, without charge, copies of this entire document provided that such copies are complete and unaltered and identify Cooley LLP as the author. All other rights reserved.