

**THE STATE BAR OF CALIFORNIA
STANDING COMMITTEE ON
PROFESSIONAL RESPONSIBILITY AND CONDUCT
FORMAL OPINION INTERIM NO. 19-0003
ADVISING CLIENT ON ILLEGAL CONTRACT PROVISIONS**

ISSUES: What are a lawyer’s ethical duties when advising a client regarding the use of a contract provision in a transaction with a third party that is a violation of the law applicable to the transaction?

DIGEST: A California lawyer has a duty not to counsel or assist a client in conduct that the lawyer knows is criminal, fraudulent, or a violation of any law, rule, or ruling of a tribunal. As such, a lawyer shall not counsel or assist a client in presenting as lawful a contract provision that the lawyer knows violates the law, or otherwise defend the legality of the provision to a third party. If the lawyer knows that the provision violates the law, the lawyer should advise the client accordingly, may not recommend the use of the provision, and must counsel the client not to use it. If the client insists on using a provision that violates the law against the lawyer’s advice, the lawyer may not participate in presenting the provision as lawful or defending its legality to a third party. The lawyer is permitted to withdraw from the representation if the client insists on using the provision and, depending on the client’s continued conduct and the scope of the representation, may be required to do so. If the lawyer concludes that the client’s conduct is a violation of law reasonably imputable to an organization and likely to result in substantial injury to the organization, the lawyer must report the actions of the client constituent to a higher authority within the organization, unless the lawyer reasonably concludes that it is not in the best lawful interest of the organization to do so.

AUTHORITIES

INTERPRETED: California Rules of Professional Conduct 1.1, 1.2.1, 1.4, 1.13, 1.16(b), 4.1, 8.4(c).¹

Business and Professions Code section 6068(d).

^{1/} Unless otherwise indicated, all references to “rules” in this opinion will be to the Rules of Professional Conduct of the State Bar of California.

INTRODUCTION

Certain types of contract provisions are illegal under California law.^{2/} For example, provisions in employment contracts that impair the ability of employees to compete against their employers following termination of employment have been found to be illegal and unenforceable, and the use of these provisions violates California law, subject to specific, limited exceptions. See *Edwards v. Arthur Andersen LLP* (2008) 44 Cal.4th 937, 945 [81 Cal.Rptr.3d 282]; *Robinson v. U-Haul Co. of California* (2016) 4 Cal.App.5th 304, 309 [209 Cal.Rptr.3d 81]; *Brown v. TGS Management Co., LLC*, 57 Cal. App. 5th 303, 315 (2020); and Business and Professions Code sections 16600 and 17200³.

For purposes of this opinion, the Committee does not opine on whether a particular clause in a contract violates the law as this raises an issue of law; instead, the Committee confines its discussion to the ethical issues presented by the factual scenarios below and assumes that the contract provision in its hypothetical scenario violates the law at the time the agreement is made and not potentially subject to an exception that would make the provision legal.

^{2/} The use of the term “illegal” in this opinion refers to a provision that violates the law. The opinion is not intended to address situations where the lawyer knows a court has held a provision to be unenforceable, but nonetheless has a good faith belief that the ruling was incorrect, another court in the controlling jurisdiction has ruled or would rule otherwise, or the provision might be enforceable against the person who is being asked to sign it under reasonably foreseeable circumstances. See Rule 1.2.1, Comment [3].

³ In *Arthur Anderson*, the California Supreme Court concludes that “section 16600 prohibits employee noncompetition agreements unless the agreement falls within a statutory exception.” *Edwards v. Arthur Andersen LLP*, 44 Cal. 4th 937, 942, 946-47 (2008) (“Under the statute’s plain meaning, therefore, an employer cannot by contract restrain a former employee from engaging in his or her profession, trade, or business unless the agreement falls within one of the exceptions to the rule.”). The Court also states that “following the Legislature, this court generally condemns noncompetition agreements. (See, e.g., *Armendariz v. Foundation Health Psychcare Services, Inc.* (2000) 24 Cal.4th 83, 123, fn. 12 [99 Cal. Rptr. 2d 745, 6 P.3d 669] [such restraints on trade are “largely illegal”].)” *Id.* at 946. See also *Brown v. TGS Management Co., LLC*, 57 Cal. App. 5th 303, 315 (2020) (“An employer’s use of an illegal noncompete agreement also violates the UCL (§ 17200 [‘unfair competition shall mean and include any unlawful, unfair or fraudulent business act or practice and unfair, deceptive, untrue or misleading advertising’].) [Citations.]”).

STATEMENT OF FACTS

Lawyer works for a large California corporation (“Company”) providing employment law advice to the Human Resources department (“HR”) responsible for all non-executive hiring. Employees hired through HR are presented with a standard form written employment agreement (“Agreement”). This Agreement is presented by HR to new hires in California as a nonnegotiable agreement that must be signed as a condition of employment. Lawyer is tasked with reviewing and updating the Agreement, which contains a material provision that violates California law.

FACTUAL SCENARIOS

Scenario 1

Lawyer knows that the provision violates California law but advises HR to use the Agreement anyway, without informing HR that the provision violates California law.

Scenario 2

Lawyer does not know that the provision violates California law, and Lawyer performs no research or analysis to determine the legality of the provision but advises HR to use the Agreement anyway.

Scenario 3

Lawyer advises HR that the provision violates California law but does not recommend against including the provision.

Scenario 4

Lawyer advises HR that the provision violates California law and recommends against including the provision. HR advises Lawyer that it understands the provision violates California law but would still like to include it in the Agreement for its chilling effect. HR then instructs Lawyer to include the provision in the Agreement as is and to assist HR in presenting the Agreement to its employees as a condition of their employment. HR also asked Lawyer to defend the legality of the provision if asked about it by any Company employees.

DISCUSSION

A. Duty to Advise of an Illegal Contract Provision

Rule of Professional Conduct 1.2.1(a) states that a “lawyer shall not counsel a client to engage, or assist a client in conduct that the lawyer *knows* is criminal, fraudulent, *or a violation of any law, rule, or ruling of a tribunal.*” (Emphasis added.) Rule 1.2.1 is modeled in substance after former rule 3-210 but adds clarifying language derived from ABA Model Rule 1.2(d). The California rule is broader than ABA Model Rule 1.2(d), which merely prohibits counseling or

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80 assisting a client on conduct known to be criminal or fraudulent.^{4/} Both the California rule^{5/} and
81 the ABA Model Rule allow a lawyer to discuss the legal consequences of any proposed course of
82 action and counsel or assist the client in interpreting the application of any law, rule or ruling to
83 that course of action.^{6/}

84 The California rule on its terms applies to every type of legal representation, including
85 transactional work and negotiation. In the transactional context, a lawyer is “counsel[ing] a
86 client to engage” or “assist[ing] a client in conduct” when the lawyer recommends the inclusion
87 of a provision in a contract that the lawyer knows violates the law, or agrees to present or
88 defend the legality of that provision to a third party. See ABA Model Rule 1.2, Comment [10]
89 (“The lawyer is required to avoid assisting the client, for example, by drafting or delivering
90 documents that the lawyer knows are fraudulent or by suggesting how the wrongdoing might
91 be concealed.”); ABA Section of Litigation, *Ethical Guidelines For Settlement Negotiations*
92 (August 2002), at pp. 46-47 (“A lawyer should not negotiate a settlement provision that the
93 lawyer knows to be illegal.”).^{7/}

94 In Scenario 1, Lawyer recommends the inclusion of a provision that Lawyer knows is illegal
95 under California law in violation of rule 1.2.1(a) and not potentially subject to an exception that
96 would make the provision legal.^{8/} Rule 1.0.1(f) defines knows: “‘Knowingly,’ ‘known,’ or ‘knows’
97 means actual knowledge of the fact in question. A person’s knowledge may be inferred from
98 circumstances.” Here, knows means Lawyer has actual knowledge that including the provision
99 in question violates California law.

100 Conversely, in Scenario 2, Lawyer does not know that the specific type of contract provision is
101 illegal under California law. Therefore, Lawyer does not violate rule 1.2.1.

^{4/} ABA Model Rule 1.2(d): “A lawyer shall not counsel a client to engage, or assist a client, in conduct that the lawyer knows is criminal or fraudulent, but a lawyer may discuss the legal consequences of any proposed course of conduct with a client and may counsel or assist a client to make a good faith effort to determine the validity, scope, meaning or application of the law.”

^{5/} Rule 1.2.1(b): “Notwithstanding paragraph (a), a lawyer may: (1) discuss the legal consequences of any proposed course of conduct with a client; and (2) counsel or assist a client to make a good faith effort to determine the validity, scope, meaning, or application of a law, rule, or ruling of a tribunal.”

^{6/} See Cal. State Bar Formal Opn. 2020-202, generally, for discussion on the scope of permitted advice and assistance a lawyer may provide to clients related to conduct described in rule 1.2.1(a).

^{7/} The ABA Model Rules may be looked to for guidance on proper professional conduct, particularly in areas where there is no contrary California authority or conflicting public policy. See Cal. Rule of Professional Conduct 1.0, Cmt. [4] (“Ethics opinions and rules and standards promulgated by other jurisdictions and bar associations may also be considered” for guidance on proper professional conduct.).

^{8/} The Committee would reach the same conclusion in all four scenarios if Lawyer was the original drafter of the agreement.

However, in Scenario 2, the Lawyer likely violated the duty of competence under rule 1.1(a) because Lawyer’s conduct reflects a deliberate or reckless disregard for the lawfulness of the subject provision. Knowing that the specific provision is illegal is likely to be reasonably necessary to provide competent legal advice to HR on employment law matters consistent with rule 1.1(b), particularly to the extent it is well-established that this type of provision is illegal and that including an illegal provision in an employment contract violates California law⁹. Rule 1.1(c) allows a lawyer to fulfill the duty of competence by associating or consulting a lawyer the lawyer reasonably believes to be competent or acquiring sufficient learning and skill to become competent before advising the client on a material legal provision. A lawyer’s failure to do so might be reckless or grossly negligent under rule 1.1(a). See *In the Matter of Morse* (Review Dept. 1994) 3 Cal. State Bar Ct. Rptr. 24 (Respondent’s mass advertising without thoroughly researching relevant statute to evaluate exemption was “grossly negligent and could be characterized as reckless or intentional after he disregarded the later request from the Attorney General’s Office that he stop mailing unlawful advertisements.”); see also rule 1.1(b).

B. Duty Not to Assist in Use of An Illegal Contract Provision or Misrepresent Legality of Provision

While the ABA frames this issue in terms of fraud or crime, the duty is broader in California because our variation of ABA Model Rule 1.2(d), rule 1.2.1, also adds violation of any law, rule, or ruling of a tribunal, even if those violations do not amount to a crime or fraud.

In Scenario 3, Lawyer has a duty under rule 1.2.1 not only to advise the client or client constituent, HR, on the applicable law and the possible consequences of using the provision in question, but also to recommend against its use. See also rule 1.4(b) (“A lawyer shall explain a matter to the extent reasonably necessary to permit the client to make informed decisions regarding the representation.”).

In Scenario 4, because the client or client constituent insists on including the illegal provision for its chilling effect contrary to Lawyer’s advice, Lawyer must advise Company regarding the limitations on Lawyer’s conduct, including that Lawyer will not represent Company in presenting the Agreement to Company employees or otherwise defend the legality of the provision. Rule 1.2.1, Comment [5]; rule 1.4(a)(4).

If Lawyer ultimately decides to assist Company by including the provision for its chilling effect and presenting it to Company employees as a condition of their employment, or otherwise defending the legality of the provision to those employees, Lawyer’s conduct is a

⁹ Under the Labor Code, it is illegal for an employer to “require any employee or applicant for employment to agree, in writing, to any term or condition which is known by such employer, or agent, manager, superintendent, or officer thereof to be prohibited by law.” Lab. Code § 432.5. In another example, the California Supreme Court has also found that requiring tenants to sign rules and regulations containing unlawful provisions constitutes an unfair and deceptive business practice in violation of Business and Professions Code section 17200. *People v. McKale* (1979) 25 Cal.3d 626, 634-635.

misrepresentation by omission or an affirmative misrepresentation that the provision is legal. See rule 4.1(a), Comment [1].

Rule 8.4(c) also states that it is professional misconduct for a lawyer to “engage in conduct involving dishonesty, fraud, deceit, or reckless or intentional misrepresentation.” Presenting a third party with a knowingly illegal provision in an employment agreement for its chilling effect^{10/} would violate rule 4.1(a), rule 8.4(c), and Business and Professions Code section 6068(d). See also California State Bar Formal Opn. 2015-194, where this committee opined that a lawyer may not knowingly make false statements of fact or implicit misrepresentations of material fact during negotiations.^{11/}

Traditionally, in representing a client in arm’s length business negotiations, a lawyer owes a limited duty to the other side that does not include a duty to inform that party of relevant facts. “[I]n drafting an agreement or other document on behalf of a client, a lawyer does not necessarily affirm or vouch for the truthfulness of representations made by the client in the agreement or document.” Rule 4.1, Comment [1]. Nonetheless, a “nondisclosure can be the equivalent of a false statement of material fact *or law* under paragraph (a) where a lawyer makes a partially true but misleading material statement or material omission.” *Id.*; see also California State Bar Formal Opn. 2015-194.

In addition, a lawyer may not make or ratify a false statement of law or fact made by the client that the lawyer knows is false. See rule 4.1(a); see also South Carolina Bar Ethics Opn. 05-03 (2005) (lawyer for ex-wife sent letter to ex-husband falsely claiming that ex-husband was required under divorce decree to undergo drug testing; this conduct violated South Carolina Rules of Professional Conduct 4.1 and 8.4(c)); *In re Discipline of Attorney* (2008) 451 Mass. 131 [884 N.E.2d 450] (lawyer disciplined under Massachusetts rule 8.4(c) alone for sending letters to insurers of opposing parties falsely claiming entitlement to lien on insurance payments payable to his clients).

Rule 4.1(b) is limited to a failure to disclose a material fact necessary to avoid assisting in a “criminal or fraudulent” act by a client, which is narrower than illegal conduct.^{12/} However, the Company’s decision to use a knowingly illegal contract provision for its chilling effect on its employees could be viewed as a fraudulent act by the Company. Whether rule 4.1(b) applies will depend on the scope of Lawyer’s conduct in presenting and defending the legality of the

^{10/} The chilling effect includes situations where a client wants to include a term not just to frighten employees, but to obtain the client’s desired result by inducing employees to comply with an illegal provision out of a mistaken fear of liability or fear of the risks and costs of litigation. Such a practice would also likely be considered to be an unfair business practice under California law in violation of Business & Professions Code section 17200, and related cases.

^{11/} Cal. State Bar Formal Opn. 2015-194 was issued prior to the time that rule 4.1 was enacted; the committee principally relied on existing statutory law (Bus. & Prof. Code, §§ 6106, 6128(a), and 6068(d)), and related California case law, but it also relied on ABA Model Rule 4.1 in support of its argument.

^{12/} Under rule 1.0.1(d): “Fraud” or “fraudulent” means conduct that is fraudulent under the law of the applicable jurisdiction and has a purpose to deceive.

provision. [Drafters Note: We would like to discuss whether to include this paragraph. The hypos don't include facts necessary to evaluate this issue and we are concerned about the accuracy of the second sentence under applicable law, which we would need to research]

C. Lawyer May Have a Duty to Withdraw from the Representation

In Scenario 4, if HR insists on including the illegal provision in Company's employment agreements, Lawyer may withdraw but is not compelled to withdraw merely because the client chooses to use the illegal provision despite Lawyer's admonition. Even where the use of that contract provision is deemed fraudulent or criminal, withdrawal from representation is permissive, not mandatory (see rule 1.2.1, Comment [1]; rule 1.16(b)(1)–(3)).^{13/}

If, however, HR not only ignores Lawyer's advice but insists that Lawyer be involved with presenting and defending the illegal contract provision to its employees, Lawyer would likely be required to terminate the representation of Company with respect to this matter.^{14/} Rule 1.16(a)(2) provides that withdrawal is mandatory if "the lawyer knows or reasonably should know that the representation will result in violation of these rules or of the State Bar Act." Lawyer's continued, active participation in presenting and defending the illegal contract provision would likely violate rules 1.2.1, 4.1, 8.4, and Business and Professions Code section 6068(d).¹⁵

^{13/} See rule 1.16 (b) ("Except as stated in paragraph (c), a lawyer *may* withdraw from representing a client if: (1) the client insists upon presenting a claim or defense in litigation, or *asserting a position or making a demand in a non-litigation matter, that is not warranted under existing law and cannot be supported by good faith argument for an extension, modification, or reversal of existing law*; (2) the client either seeks to pursue a criminal or fraudulent course of conduct or has used the lawyer's services to advance a course of conduct that the lawyer reasonably believes was a crime or fraud; (3) the client insists that the lawyer pursue a course of conduct that is criminal or fraudulent . . ."). (Emphasis added.)

^{14/} In the case of an in-house lawyer, we assume that Lawyer would be permitted to ethically limit the scope of the representation to exclude this matter or decline the representation if HR sought to have Lawyer negotiate, defend, advocate or litigate the illegal provision. See rules 1.2(b); 1.16(a)(2). Whether Lawyer would need to withdraw from other matters or whether Lawyer would be required to terminate Lawyer's employment at Company is beyond the scope of this opinion and depends on specific facts, including HR's instructions or continued demands, and whether the withdrawal from representation relating to the illegal provision would impact Lawyer's representation of Company on other matters.

^{15/} If this matter was before a tribunal, Lawyer may not reveal confidential advice or information regarding the use of the illegal provision in seeking withdrawal, except as required by rule 1.13. (See rule 1.6 and Cal. Bus. & Prof. Code, § 6068(e)(1). See also, Cal. State Bar Formal Opn. 2015-192, generally, for discussion on lawyer's duty to maintain confidential information when withdrawing from a client representation.)

D. Duty to Report Up in An Organization

Lawyer in Scenario 4 has a duty to report the conduct of the corporate constituent (*e.g.*, HR) to a higher authority within Company because the lawyer knows that HR's conduct is illegal and is "likely to result in substantial injury to the organization." See rule 1.13(b).^{16/} Rule 1.13(b) provides for an exception to reporting up if the facts indicate that "it is not necessary in the best lawful interest of the organization to do so." *Id.* While the duty to report up is fact-specific, in Scenario 4, if HR insists on using the illegal provision or that Lawyer participate in presenting and defending the legality of the provision, reporting up would likely be in the best lawful interest of Company.

Moreover, because Lawyer has a duty not to withdraw without taking reasonable steps to avoid reasonably foreseeable prejudice to the organization client under rule 1.16(d), this disclosure must be made even if Lawyer opts to withdraw under the permissive withdrawal provisions in rule 1.16(b)(1)–(3). Beyond this scenario, a lawyer should evaluate carefully whether disclosure to a higher authority within the organization is reasonably necessary, which will depend on the relevant circumstances.

CONCLUSION

A California lawyer has a duty not to counsel or assist a client in conduct that the lawyer knows is criminal, fraudulent, or a violation of any law, rule, or ruling of a tribunal. As such, a lawyer shall not counsel or assist a client in presenting as lawful a contract provision that the lawyer knows violates the law, or otherwise defend the legality of the provision to a third party. If the lawyer knows that the provision is illegal, the lawyer: (1) should advise the client accordingly; (2) may not recommend the use of the provision; and (3) must counsel the client not to use it.

If the client insists on using the illegal provision against the lawyer's advice, the lawyer shall not participate in presenting the illegal provision to the third party and shall not assist the client in defending the legality of the provision against a third party. The lawyer is permitted to withdraw from the representation if the client insists on using the illegal provision and, depending on the client's continued conduct and the scope of the representation, may be required to do so.

If the lawyer concludes that the conduct is a violation of law reasonably imputable to the organization and likely to result in substantial injury to the organization, the lawyer for an

^{16/} Company's use of an illegal provision is likely to result in substantial injury to the organization. See, *e.g.*, Cal. Lab. Code, § 432.5 ("No employer, or agent, manager, superintendent, or officer thereof, shall require any employee or applicant for employment to agree, in writing, to any term or condition which is known by such employer, or agent, manager, superintendent, or officer thereof to be prohibited by law."); *McKale, supra*, 25 Cal.3d at 634-635 (requiring tenants to sign rules and regulations containing unlawful provisions constitutes unfair and deceptive business practice in violation of Business and Professions Code section 17200).

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212 organization must report the actions of the client constituent to a higher authority within the
213 organization, unless the lawyer reasonably concludes that it is not in the best lawful interest of
214 the organization to do so.

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ISSUES: What are a lawyer’s ethical duties when advising a client regarding the use of a contract provision in a transaction with a third party that is ~~illegal under the law~~ a violation of the ~~jurisdiction~~ law applicable to the transaction?

DIGEST: A California lawyer has a duty not to counsel or assist a client in conduct that the lawyer knows is criminal, fraudulent, or a violation of any law, rule, or ruling of a tribunal. ~~That conduct includes promulgating~~ As such, a lawyer shall not counsel or ~~enforcing~~ assist a client in presenting as lawful a contract provision ~~in a transaction with a third party that is illegal under the law~~ the lawyer knows violates the law, or otherwise defend the legality of the ~~jurisdiction applicable provision to the transaction, a third party.~~ If the lawyer knows that the provision ~~is illegal as applied to the transaction~~ violates the law, the lawyer should advise the client accordingly, may not recommend the use of the provision, and must counsel the client not to use it. If the client insists on ~~the use of the illegal~~ using a provision that violates the law against the lawyer’s advice, the lawyer may not participate in ~~promulgating or enforcing~~ presenting the ~~illegal~~ provision ~~against~~ as lawful or defending its legality to a third party. The lawyer is permitted to withdraw from the representation if the client insists on using the ~~illegal~~ provision and, depending on the client’s continued conduct and the scope of the representation, may be required to do so. If the lawyer concludes that the client’s conduct is a violation of law reasonably imputable to ~~the~~ an organization and likely to result in substantial injury to the organization, the lawyer ~~for an organization~~ must report the actions of the client constituent to a higher authority within the organization, unless the lawyer reasonably concludes that it is not in the best lawful interest of the organization to do so.

AUTHORITIES

INTERPRETED: California Rules of Professional Conduct 1.1, 1.2.1, 1.4, 1.13, 1.16(b), 4.1, 8.4(c).¹

Business and Professions Code section 6068(d).

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INTRODUCTION

Certain types of contract provisions are illegal under California law.^{2/} For example, provisions in employment contracts that impair the ability of employees to compete against their employers following termination of employment have ~~generally~~ been found to be illegal ~~under and unenforceable, and the use of these provisions violates~~ California law, subject to ~~specific~~, limited exceptions. See *Edwards v. Arthur Andersen LLP* (2008) 44 Cal.4th 937, 945 [81 Cal.Rptr.3d 282]; *Robinson v. U-Haul Co. of California* (2016) 4 Cal.App.5th 304, 309 [209 Cal.Rptr.3d 81]; *Brown v. TGS Management Co., LLC*, 57 Cal. App. 5th 303, 315 (2020); and Business and Professions Code ~~section~~sections 16600– and 17200³.

For purposes of this opinion, the Committee does not opine on whether a particular clause in a contract ~~is illegal~~ violates the law as this raises an issue of law; instead, the Committee confines its discussion to the ethical issues presented by the factual scenarios below and assumes that the contract provision ~~at issue is illegal~~ in its hypothetical scenario violates the law at the time the agreement is made and not potentially subject to an exception that would make the provision legal.^{4/}

^{2/} The use of the term “illegal” in this opinion refers to a provision that violates the law. The opinion is not intended to address situations where the lawyer knows a court has held a provision to be unenforceable, but nonetheless has a good faith belief that the ruling was incorrect, another court in the controlling jurisdiction has ruled or would rule otherwise, or the provision might be enforceable against the person who is being asked to sign it under reasonably foreseeable circumstances. See Rule 1.2.1, Comment [3].

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^{4/} ~~The use of the term “illegal” in this opinion refers to a provision that is illegal under the law of the jurisdiction applicable to the transaction. The opinion is not intended to address provisions that are legal, but against public policy, unenforceable or subject to some other prohibition; Nor is it intended to address situations where the lawyer knows a court has held the provision to be unlawful, but nonetheless has a good faith belief that the ruling was incorrect, another court in the controlling jurisdiction has ruled or would rule otherwise, or the provision might be enforceable against the person who is being asked to sign it under reasonably foreseeable circumstances. See Rule 1.2.1, Comment [3].~~

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STATEMENT OF FACTS

Lawyer works for a large California corporation (“Company”) providing employment law advice to the Human Resources department (“HR”) responsible for all non-executive hiring. Employees hired through HR are presented with a standard form written employment agreement (“Agreement”). This Agreement is presented by HR to new hires in California as a nonnegotiable agreement that must be signed as a condition of employment. Lawyer is tasked with reviewing and updating the Agreement, which contains a material provision that ~~is illegal under~~violates California law.

FACTUAL SCENARIOS

Scenario 1

Lawyer knows that the provision ~~is illegal under~~violates California law but advises HR to use the Agreement anyway, without informing HR ~~of that~~ the ~~illegality~~provision violates California law.

Scenario 2

Lawyer does not know that the provision ~~is illegal under~~violates California law, and Lawyer performs no research or analysis to determine the legality of the provision but advises HR to use the Agreement anyway.

Scenario 3

Lawyer advises HR that the provision ~~is illegal under~~violates California law but does not recommend against including the provision.

Scenario 4

Lawyer advises HR that the ~~contract~~-provision ~~is illegal under~~violates California law and recommends against including the provision. HR advises Lawyer that it understands the provision ~~is illegal~~violates California law but would still like to include it in the Agreement for its chilling effect. HR ~~has asked the~~then instructs Lawyer to ~~assist in enforcing~~include the provision: in the Agreement as is and to assist HR in presenting the Agreement to its employees as a condition of their employment. HR also asked Lawyer to defend the legality of the provision if asked about it by any Company employees.

DISCUSSION

A. Duty to Advise of an Illegal Contract Provision

Rule of Professional Conduct 1.2.1(a) states that a “lawyer shall not counsel a client to engage, or assist a client in conduct that the lawyer *knows* is criminal, fraudulent, *or a violation of any law, rule, or ruling of a tribunal.*” (Emphasis added.) Rule 1.2.1 is modeled in substance after

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former rule 3-210 but adds clarifying language derived from ABA Model Rule 1.2(d). The California rule is broader than ABA Model Rule 1.2(d), which merely prohibits counseling or assisting a client on conduct known to be criminal or fraudulent.^{5/} Both the California rule^{6/} and the ABA Model Rule allow a lawyer to discuss the legal consequences of any proposed course of action and counsel or assist the client in interpreting the application of any law, rule or ruling to that course of action.^{7/}

The California rule on its terms applies to every type of legal representation, including transactional work and negotiation. ~~A~~In the transactional context, a lawyer ~~shall not knowingly advise~~is “counsel[ing] a client to propose an illegal engage” or “assist[ing] a client in conduct” ~~when the lawyer recommends the inclusion of a~~ provision in a contract that ~~will be offered the~~ lawyer knows violates the law, or agrees to present or defend the legality of that provision to a third party. See ABA Model Rule 1.2, Comment [10] (“The lawyer is required to avoid assisting the client, for example, by drafting or delivering documents that the lawyer knows are fraudulent or by suggesting how the wrongdoing might be concealed.”); ABA Section of Litigation, *Ethical Guidelines For Settlement Negotiations* (August 2002), at pp. 46-47 ~~→~~ (“A lawyer should not negotiate a settlement provision that the lawyer knows to be illegal.”).^{8/}

In Scenario 1, Lawyer recommends the inclusion of a provision that Lawyer knows is illegal under California law in violation of rule 1.2.1(a) and not potentially subject to an exception that would make the provision legal.^{9/} Rule 1.0.1(f) ~~helps to define knowing~~defines knows: “‘Knowingly,’ ‘known,’ or ‘knows’ means actual knowledge of the fact in question. A person’s knowledge may be inferred from circumstances.” Here, knowing~~knows~~ means ~~the~~ lawyer~~Lawyer~~ has actual knowledge that including the provision in question ~~is prohibited by the controlling legal authority in the jurisdiction whose~~violates California law ~~is applicable to the transaction or contract.~~.

^{5/} ABA Model Rule 1.2(d): “A lawyer shall not counsel a client to engage, or assist a client, in conduct that the lawyer knows is criminal or fraudulent, but a lawyer may discuss the legal consequences of any proposed course of conduct with a client and may counsel or assist a client to make a good faith effort to determine the validity, scope, meaning or application of the law.”

^{6/} Rule 1.2.1(b): “Notwithstanding paragraph (a), a lawyer may: (1) discuss the legal consequences of any proposed course of conduct with a client; and (2) counsel or assist a client to make a good faith effort to determine the validity, scope, meaning, or application of a law, rule, or ruling of a tribunal.”

^{7/} See Cal. State Bar Formal Opn. 2020-202, generally, for discussion on the scope of permitted advice and assistance a lawyer may provide to clients related to conduct described in rule 1.2.1(a).

^{8/} The ABA Model Rules may be looked to for guidance on proper professional conduct, particularly in areas where there is no contrary California authority or conflicting public policy. See Cal. Rule of Professional Conduct 1.0, Cmt. [4] (“Ethics opinions and rules and standards promulgated by other jurisdictions and bar associations may also be considered” for guidance on proper professional conduct.).

^{9/} The ~~committee~~Committee would reach the same conclusion in all four scenarios if Lawyer was the original drafter of the agreement.

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Conversely, in Scenario 2, Lawyer does not know that the specific type of contract provision is illegal under ~~the controlling legal authority of the applicable jurisdiction.~~ California law. Therefore, ~~the lawyer~~ Lawyer does not violate rule 1.2.1.

However, in Scenario 2, the Lawyer likely violated the duty of competence under rule 1.1(a) because Lawyer's conduct reflects a deliberate or reckless disregard for the lawfulness of the subject provision. Knowing that the specific provision is illegal is likely to be reasonably necessary to provide competent legal advice to HR on employment law matters consistent with rule 1.1(b), particularly to the extent it is well-established that this type of provision is illegal ~~and that including an illegal provision in an employment contract violates California law~~¹⁰. Rule 1.1(c) allows a lawyer to fulfill the duty of competence by associating or consulting a lawyer the lawyer reasonably believes to be competent or acquiring sufficient learning and skill to become competent before advising the client on a material legal provision. A lawyer's failure to do so might be reckless or grossly negligent under rule 1.1(a). See, *In the Matter of Morse* (Review Dept. 1994) 3 Cal. State Bar Ct. Rptr. 24 (Respondent's mass advertising without thoroughly researching relevant statute to evaluate exemption was "grossly negligent and could be characterized as reckless or intentional after he disregarded the later request from the Attorney General's Office that he stop mailing unlawful advertisements."); see also rule 1.1(b).

B. Duty Not to Assist ~~Enforcement~~ In Use of an ~~An~~ Illegal Contract Provision or Misrepresent Legality of Provision

While the ABA frames this issue in terms of fraud or crime, the duty is broader in California because our variation of ABA Model Rule 1.2(d), rule 1.2.1, also adds violation of any law, rule, or ruling of a tribunal, even if those violations do not amount to a crime or fraud.

In Scenario 3, Lawyer has a duty under rule 1.2.1 not only to advise the client or client constituent, HR, on the applicable law and the possible consequences of using the provision in question, but also to recommend against its use ~~and avoid assisting the client's promulgation or enforcement of the illegal provision.~~ See also rule 1.4(b) ("A lawyer shall explain a matter to the extent reasonably necessary to permit the client to make informed decisions regarding the representation.").

In Scenario 4, because the client or client constituent insists on including the illegal provision for its chilling effect contrary to Lawyer's advice, Lawyer must advise ~~Corporation~~ Company regarding the limitations on Lawyer's conduct, including that Lawyer will not represent ~~Corporation~~ Company in ~~promulgating or attempting to enforce~~ presenting the ~~illegal~~ Agreement

¹⁰ Under the Labor Code, it is illegal for an employer to "require any employee or applicant for employment to agree, in writing, to any term or condition which is known by such employer, or agent, manager, superintendent, or officer thereof to be prohibited by law." Lab. Code § 432.5. In another example, the California Supreme Court has also found that requiring tenants to sign rules and regulations containing unlawful provisions constitutes an unfair and deceptive business practice in violation of Business and Professions Code section 17200. *People v. McKale* (1979) 25 Cal.3d 626, 634-635.

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140 to Company employees or otherwise defend the legality of the provision. Rule 1.2.1, Comment
141 [5]; rule 1.4(a)(4).

142 If Lawyer ultimately decides to assist ~~Corporation in promulgating or enforcing~~Company by
143 including the ~~illegal~~ provision, ~~Lawyer's~~ for its chilling effect and presenting it to Company
144 employees as a condition of their employment, or otherwise defending the legality of the
145 provision to those employees, Lawyer's conduct ~~may be~~is a misrepresentation by omission or
146 an affirmative misrepresentation that the provision is legal. See rule 4.1(a), Comment [1].

147 ~~A lawyer shall not knowingly make a false statement of law to a third person. Rule 4.1(a). Rule~~
148 ~~8.4(c).~~Rule 8.4(c) also states that it is professional misconduct for a lawyer to “engage in
149 conduct involving dishonesty, fraud, deceit, or reckless or intentional misrepresentation.”
150 ~~Promulgating or enforcing~~Presenting a third party with a knowingly illegal provision in an
151 employment agreement for its chilling effect^{11/} ~~on third parties~~ would violate rule 4.1(a), rule
152 8.4(c), and Business and Professions Code section 6068(d). See also, California State Bar Formal
153 Opn. 2015-194, where this committee opined that a lawyer may not knowingly make false
154 statements of fact or implicit misrepresentations of material fact during negotiations.^{12/}

155 Traditionally, in representing a client in arm's length business negotiations, a lawyer owes a
156 limited duty to the other side that does not include a duty to inform that party of relevant facts.
157 “[I]n drafting an agreement or other document on behalf of a client, a lawyer does not
158 necessarily affirm or vouch for the truthfulness of representations made by the client in the
159 agreement or document.” Rule 4.1, Comment [1]. Nonetheless, a “nondisclosure can be the
160 equivalent of a false statement of material fact *or law* under paragraph (a) where a lawyer
161 makes a partially true but misleading material statement or material omission.” *Id.*; see also
162 California State Bar Formal Opn. 2015-194.

163 In addition, a lawyer may not make or ratify a false statement of law or fact made by the client
164 that the lawyer knows is false. See rule 4.1(a); see also South Carolina Bar Ethics Opn. 05-03
165 (2005) (lawyer for ex-wife sent letter to ex-husband falsely claiming that ex-husband was
166 required under divorce decree to undergo drug testing; this conduct violated South Carolina
167 Rules of Professional Conduct 4.1 and 8.4(c)); *In re Discipline of Attorney* (2008) 451 Mass. 131
168 [884 N.E.2d 450] (lawyer disciplined under Massachusetts rule 8.4(c) alone for sending letters

^{11/} The chilling effect includes situations where a client wants to include a term not ~~merely~~just to
frighten employees, but to obtain the client's desired result by inducing employees to comply with an
illegal
provision out of a mistaken fear of liability or fear of the risks and costs of litigation. Such a practice
would also likely be considered to be an unfair business practice under California law in violation of
Business & Professions Code section 17200, and related cases.

^{12/} Cal. State Bar Formal Opn. 2015-194 was issued prior to the time that rule 4.1 was enacted; the
committee principally relied on existing statutory law (Bus. & Prof. Code, §§ 6106, 6128(a), and 6068(d)),
and related California case law, but it also relied on ABA Model Rule 4.1 in support of its argument.

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to insurers of opposing parties falsely claiming entitlement to lien on insurance payments payable to his clients).

Rule 4.1(b) is limited to a failure to disclose a material fact necessary to avoid assisting in a “criminal or fraudulent” act by a client, which is narrower than illegal conduct.^{13/} However, the ~~advocacy of Company’s decision to use a knowingly illegal contract provision known both by the client and the lawyer to be illegal~~ for its chilling effect on its employees could be viewed as a fraudulent act by the ~~client~~ Company. Whether rule 4.1(b) applies will depend on the scope of ~~the lawyer’s~~ Lawyer’s conduct in ~~promulgating or enforcing the~~ presenting and defending the legality of the provision. [Drafters Note: We would like to discuss whether to include this paragraph. The hypos don’t include facts necessary to evaluate this issue and we are concerned about the accuracy of the second sentence under applicable law, which we would need to research]

C. Lawyer May Have a Duty to Withdraw from the Representation

In Scenario 4, if HR insists on including the illegal provision in Company’s employment agreements, Lawyer may withdraw, but is not compelled to withdraw merely because the client chooses to use the illegal provision despite Lawyer’s admonition. Even where the use of that contract provision is deemed fraudulent or ~~even~~ criminal, withdrawal from representation is permissive, not mandatory (see rule 1.2.1, Comment [1]; rule 1.16(b)(1)–(3).)^{14/}

If, however, HR not only ignores Lawyer’s advice but insists that Lawyer be involved with ~~promulgating or enforcing~~ presenting and defending the illegal contract provision to its employees, Lawyer would likely be required to terminate ~~his~~ the representation of Company with respect to this matter.^{15/} Rule 1.16(a)(2) provides that withdrawal is mandatory if “the

^{13/} Under rule 1.0.1(d): “Fraud” or “fraudulent” means conduct that is fraudulent under the law of the applicable jurisdiction and has a purpose to deceive.

^{14/} See rule 1.16 (b) (“Except as stated in paragraph (c), a lawyer *may* withdraw from representing a client if: (1) the client insists upon presenting a claim or defense in litigation, or *asserting a position or making a demand in a non-litigation matter, that is not warranted under existing law and cannot be supported by good faith argument for an extension, modification, or reversal of existing law*; (2) the client either seeks to pursue a criminal or fraudulent course of conduct or has used the lawyer’s services to advance a course of conduct that the lawyer reasonably believes was a crime or fraud; (3) the client insists that the lawyer pursue a course of conduct that is criminal or fraudulent . . .”). (Emphasis added.)

^{15/} In the case of an in-house lawyer, we assume that Lawyer would be permitted to ethically limit the scope of the representation to exclude this matter or decline the representation if HR sought to have Lawyer negotiate, defend, advocate or litigate the illegal provision. See rules 1.2(b); 1.16(a)(2). Whether Lawyer would need to withdraw from other matters or whether Lawyer would be required to terminate Lawyer’s employment at Company is beyond the scope of this opinion and depends on specific facts, including HR’s instructions or continued demands, and whether the withdrawal from representation relating to the illegal provision would impact Lawyer’s representation of Company on other matters.

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lawyer knows or reasonably should know that the representation will result in violation of these rules or of the State Bar Act.” Lawyer’s continued, active participation in ~~promulgating~~presenting and ~~enforcing~~defending the illegal contract provision would likely violate rules 1.2.1, 4.1, 8.4, and ~~possibly~~ Business and Professions Code section 6068(d).¹⁶

D. Duty to Report Up in An Organization

Lawyer in Scenario 4 has a duty to report the conduct of the corporate constituent (*e.g.*, HR) to a higher authority within Company because the lawyer knows that HR’s conduct is illegal and is “likely to result in substantial injury to the organization.” See rule 1.13(b).¹⁷ Rule 1.13(b) provides for an exception to reporting up if the facts indicate that “it is not necessary in the best lawful interest of the organization to do so.” *Id.* While the duty to report up is fact-specific, in Scenario 4, if HR insists on using the illegal provision or that Lawyer ~~participates~~participate in ~~promulgating or enforcing~~presenting and defending the ~~illegal~~legality of the provision, reporting up would ~~very~~ likely be in the best lawful interest of Company.

Moreover, because Lawyer has a duty not to withdraw without taking reasonable steps to avoid reasonably foreseeable prejudice to the organization client under rule 1.16(d), this disclosure must be made even if Lawyer opts to withdraw under the permissive withdrawal provisions in rule 1.16(b)(1)–(3). Beyond this scenario, a lawyer should evaluate carefully whether disclosure to a higher authority within the organization is reasonably necessary, which will depend on the relevant circumstances.

CONCLUSION

A California lawyer has a duty not to counsel or assist a client in conduct that the lawyer knows is criminal, fraudulent, or a violation of any law, rule, or ruling of a tribunal. As such, a lawyer shall not ~~knowingly promulgate~~counsel or ~~enforce~~assist a client in presenting as lawful a contract provision ~~in a transaction with a third party that is illegal under~~the lawyer knows violates the law, or otherwise defend the legality of the ~~jurisdiction applicable to the~~ transaction and not potentially subject to an exception that would make the provision ~~legal~~to a

^{16/} If this matter was before a tribunal, Lawyer may not reveal confidential advice or information regarding the use of the illegal provision in seeking withdrawal, except as required by rule 1.13. (See rule 1.6 and Cal. Bus. & Prof. Code, § 6068(e)(1). See also, Cal. State Bar Formal Opn. 2015-192, generally, for discussion on lawyer’s duty to maintain confidential information when withdrawing from a client representation.)

^{17/} Company’s use of an illegal provision is likely to result in substantial injury to the organization. See ~~also, e.g.,~~ Cal. Lab. Code, § 432.5 (“No employer, or agent, manager, superintendent, or officer thereof, shall require any employee or applicant for employment to agree, in writing, to any term or condition which is known by such employer, or agent, manager, superintendent, or officer thereof to be prohibited by law.”); *McKale, supra*, 25 Cal.3d at 634-635 (requiring tenants to sign rules and regulations containing unlawful provisions constitutes unfair and deceptive business practice in violation of Business and Professions Code section 17200).

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218 [third party](#). If the lawyer knows that the provision is illegal, the lawyer: (1) should advise the
219 client accordingly; (2) may not recommend the use of the provision; and (3) must counsel the
220 client not to use it.

221 If the client insists on using the illegal provision against the lawyer's advice, the lawyer shall not
222 participate in presenting the illegal provision to the third party and shall not assist the client in
223 ~~enforcing~~[defending the legality of](#) the provision against a third party. The lawyer is permitted to
224 withdraw from the representation if the client insists on using the illegal provision and,
225 depending on the client's continued conduct [and the scope of the representation](#), may be
226 required to do so.

227 If the lawyer concludes that the conduct is a violation of law reasonably imputable to the
228 organization and likely to result in substantial injury to the organization, the lawyer for an
229 organization must report the actions of the client constituent to a higher authority within the
230 organization, unless the lawyer reasonably concludes that it is not in the best lawful interest of
231 the organization to do so.

Public Comments Analysis to Illegal Contract Provisions Draft Ethics Opinion

- **Neil Wertlieb**

- The term “illegal” is inconsistent with Rule 1.2.1, which applies to “conduct that the lawyer knows is criminal, fraudulent, or a violation of any law, rule, or ruling of a tribunal.” (Emphasis added).
 - Illegal was used as shorthand and appears consistent with “a violation of any law, rule, or ruling of a tribunal.” Based on Neil’s and comments of others, we clarified in note 2 that the use of the term “illegal” refers to a provision that violates the law.
 - As Richard Zitrin’s comments note, counseling a client or assisting a client in drafting, promoting and enforcing a contract provision that the lawyer knows is a violation of California law concerns “conduct.” If the law clearly prohibits such agreements, we believe the lawyer is counseling or assisting a client in conduct that the lawyer knows if a violation of law.
- Footnote 2 states that it is “not intended to address provisions that are legal, but against public policy, unenforceable or subject to some other prohibition.” The Intro provides an example of a non-compete covenant in an employment agreement, but there is little support for the proposition that a non-compete covenant is or could be a violation of law in California. Business and Professions Code section 16600 states that absent an exception, a noncompete is “void” (not a violation of law). The cases cited do not hold that a non-compete could be a violation of law. The 2008 California Supreme Court case *Edwards v. Arthur Andersen LLP* held that the non-compete covenant was invalid (not a violation of law nor illegal). Although the 2016 Court of Appeals case *Robinson v. U-Haul Co. of California* states that such covenants are illegal under California law, it cites to both Section 16600 and *Edwards v. Arthur Andersen LLP* for support, although neither use the term “illegal,” and does not find that a non-compete provision is a “violation of law.” The draft opinion skirts this issue by assuming “that the contract provision at issue is illegal at the time the agreement is made.” Perhaps a better example could be used, but Neil is unaware of any contract provision that is itself a violation of any law in California.
 - We considered changing the example provided based on the feedback received regarding distinction between void/unenforceable contract provisions and illegal contract provisions. We also considered David McGowan’s suggestion to limit to agreements that are unlawful to propose or consummate, such as price-fixing agreements, agreements restraining a lawyer’s right to practice (CA Rule 5.6(a)), or agreements precluding reports of a violation of the rules of conduct. (CA Rule 5.6(b); Business & Professions Code Section 6090.5).
 - After further evaluation, we believe California case law supports the notion that noncompete agreements are illegal or in violation of law absent an applicable exception. For example, in *Arthur Anderson*, the California Supreme Court concludes that “section 16600 prohibits employee noncompetition agreements

unless the agreement falls within a statutory exception.” *Edwards v. Arthur Andersen LLP*, 44 Cal. 4th 937, 942, 946-47 (2008) (“Under the statute’s plain meaning, therefore, an employer cannot by contract restrain a former employee from engaging in his or her profession, trade, or business unless the agreement falls within one of the exceptions to the rule.”). The Court also states that “following the Legislature, this court generally condemns noncompetition agreements. (See, e.g., *Armendariz v. Foundation Health Psychcare Services, Inc.* (2000) 24 Cal.4th 83, 123, fn. 12 [99 Cal. Rptr. 2d 745, 6 P.3d 669] [such restraints on trade are “largely illegal”].)” *Id.* at 946. See also *Brown v. TGS Management Co., LLC*, 57 Cal. App. 5th 303, 315 (2020) (“An employer’s use of an illegal noncompete agreement also violates the UCL (§ 17200 [‘unfair competition shall mean and include any unlawful, unfair or fraudulent business act or practice and unfair, deceptive, untrue or misleading advertising’].) [Citations.]”). We added some additional authorities to support the noncompete example, include the *Brown* case and California’s Unfair Competition Law (Bus. & Prof. C. § 17200). See, e.g., ns. 3 & 9.

- In addition, we make clear that the Committee does not opine on whether a particular clause in a contract violates the law as this raises an issue of law and we are assuming for purposes of the opinion that the provision in the hypos violates the law.
- Even if a contract provision could be a violation of law or illegal, Rule 1.2.1(a) prohibits “conduct” that is in violation of law. A contract provision cannot constitute “conduct” for purposes of Rule 1.2.1(a). The draft opinion, in discussing Scenario 1, asserts that Lawyer, by recommending “inclusion of a provision that Lawyer knows is illegal under California law,” would be in violation of Rule 1.2.1(a). However, because Rule 1.2.1 requires that a lawyer counsel or assist a client in conduct the lawyer knows is in violation of the law, there must be conduct by the client that is (or would be) a violation of the law. The act of including an illegal provision in a contract must also be illegal, but there is no basis for reaching this conclusion under California law.
- See Response to first comment above.
- The Conclusion asserts that “a lawyer shall not knowingly promulgate or enforce a contract provision ... that is illegal.” There is no basis for concluding that the “conduct” of promulgating or enforcing an illegal provision is in violation of the law. This may suggest a lawyer is violating Rules 3.1 or 3.4, but not Rule 1.2.1.
- We believe the use of the term “promulgating” is unclear. We revised this sentence to state that a lawyer shall not counsel or assist a client in presenting as lawful a contract provision that the lawyer knows violates the law, or otherwise defend the legality of the provision to a third party. We do not believe Rules 3.1 or 3.4 apply to our scenarios.

- The draft opinion assumes that if a lawyer knows a contract provision is illegal, the lawyer must know that certain conduct relating to that provision is also illegal. Rule 1.2.1(a) requires “conduct that the lawyer knows is criminal, fraudulent, or a violation of any law, rule, or ruling of a tribunal.”
 - See Response to first comment above.
- It is nonsensical to conclude as a matter of law that the inclusion of an illegal contract provision is itself illegal conduct. Provides example of an employee who seeks to include such provision in exchange for higher compensation.
 - See Response to first comment above.
- If the draft opinion assumes that the inclusion of an illegal provision in a contract is (by definition) illegal conduct, then the draft opinion’s conclusion is stating the obvious and provides no assistance.
 - As the opinion makes clear, the Committee concludes that under the applicable rules, a lawyer shall not counsel or assist a client in presenting as lawful a contract provision that the lawyer knows violates the law, or otherwise defend the legality of the provision to a third party. *See, e.g.,* Digest and Conclusion.
- **CLA**
 - Cut and paste of Neil’s personal comments.
- **Richard Zitrin**
 - He does not understand the use of the term “illegal,” and new footnote 2 confuses issues by distinguishing between “illegal” and “unenforceable” without further explanation. In addition, fn. 2 references “legal but against public policy.” If something is found to be against public policy, doesn’t that make it illegal?
 - Based on overall feedback, we modified this clarifying footnote, which we believe is still useful to avoid confusion. We also evaluated whether something against public policy is necessarily illegal. While contracts against public policy will not be enforced by the courts, the courts do not appear to use the term “illegal” and “against public policy” interchangeably.
 - Recommends following revision in first paragraph of the introduction and throughout the draft opinion, which tracks language of Rule 1.2.1:

Certain types of contract provisions are ~~illegal under~~ violations of California law. For example, provisions in employment contracts that impair the ability of employees to compete against their employers following termination of employment have generally been found to be ~~illegal under~~ violations of California law, subject to limited exceptions.

- We incorporate this suggestion but used “violation of the law” to track Rule 1.2.1 and not limit to California law. We also clarified the definition of illegal in footnote 2.
 - He disagrees with Neil’s comments about the contract itself not being conduct. The prohibition on the lawyer under Rule 1.2.1 is not to “counsel a client to engage, or assist a client in conduct” It seems disingenuous to say that the client’s drafting, entering into, negotiating, or signing a contract is neither “engaging” nor “conduct.” The contract was drafted, negotiated, and executed. All those things both are engaging and conduct.
 - Agree. See response to Neil’s first comment.
- **Stanley Lamport**
 - Disagrees with the following conclusion: “If Lawyer ultimately decides to assist Corporation in promulgating or enforcing the illegal provision, Lawyer’s conduct may be a misrepresentation by omission or an affirmative misrepresentation that the provision is legal. See rule 4.1(a), Comment [1].” Rule 4.1, Comment 1 states in pertinent part: “A misrepresentation can occur if the lawyer incorporates or affirms the truth of a statement of another person* that the lawyer knows* is false. However, in drafting an agreement or other document on behalf of a client, a lawyer does not necessarily affirm or vouch for the truthfulness of representations made by the client in the agreement or document. A nondisclosure can be the equivalent of a false statement of material fact or law under paragraph (a) where a lawyer makes a partially true but misleading material statement or material omission.” The Comment does not stand for the proposition that “promulgating” an unenforceable contract provision may be a violation of rule 4.1. It takes more than including a provision in a contract to trigger a rule 4.1 violation because drafting an agreement does not necessarily affirm or vouch for the truthfulness of a representation made by the client.
 - Here, we are not addressing a client misrepresentation of fact, but the lawyer knowingly promoting and enforcing a provision the lawyer knows is illegal. As noted above, we decided to use another term instead of “promulgating” to avoid confusion. We also further revised this sentence to be more specific about the conduct that we conclude would violate Rule 4.1: “If Lawyer ultimately decides to assist Company by including the provision for its chilling effect and presenting it to Company employees as a condition of their employment, or otherwise defending the legality of the provision to those employees, Lawyer’s conduct is a misrepresentation by omission or an affirmative misrepresentation that the provision is legal. See rule 4.1(a), Comment [1].”
 - The Comment notes that a rule 4.1 violation can arise when a lawyer makes a statement of material fact with respect to the terms of the contract; but there are no such facts in the draft opinion.

- We modified Scenario 4 to include the following additional facts, which would result in a false statement of fact to the extent the Lawyer defends the legality of the knowingly illegal provision: “HR then instructs Lawyer to include the provision in the Agreement as is and to assist HR in presenting the Agreement to its employees as a condition of their employment. HR also asked Lawyer to defend the legality of the provision if asked about it by any Company employees.”
- Using the word “may” indicates that there might be a violation of rule 4.1 or there might not be a violation of that rule and provides no meaningful guidance. The sentence is misleading to the extent it could be read to mean that merely advising a client regarding enforcing an “illegal” contract provision may constitute a misrepresentation by the lawyer.
- The opinion is not addressing providing mere advice to the client about enforcement and the first paragraph in Section A makes clear that a lawyer may discuss the legal consequences of any proposed course of action. Based on our changes to Scenario 4 and other revisions, we changed “may” to “is.”
- The question whether assisting a client to enforce an unenforceable contract provision is beyond the scope of the draft opinion. The draft opinion is limited to a lawyer working with a client to review and update an agreement. There is nothing in the draft opinion to suggest that the lawyer will have any contact with an employee who is asked to sign the agreement or will make any statement or representation to such an employee.
- This is not correct. Scenario 4 and the body clearly address assisting a client with enforcement.
- COPRAC addressed misrepresentations in the context of a contract in State Bar Formal Opinion 1996-146. If COPRAC wants to address the question of a misrepresentation in the context of an unenforceable contract provision, it should build on Formal Opinion 1996-146 in the context of a different hypothetical that would allow COPRAC to reach a definite conclusion.
- This older COPRAC opinion addresses a different factual situation involving a lawyer’s fraudulent conduct. We considered referencing the older opinion in a footnote when discussing scenario 4 but decided not to do so given the different scope of each opinion.
- **David McGowan**
 - Fn. 2 does not adequately distinguish illegal and unenforceable contracts and this distinction is not followed in body of opinion:

The use of the term “illegal” in this opinion refers to a provision that is illegal under the law of the jurisdiction applicable to the transaction. The opinion is not intended to address provisions that are legal, but against public policy,

unenforceable or subject to some other prohibition; Nor is it intended to address situations where the lawyer knows a court has held the provision to be unlawful, but nonetheless has a good faith belief that the ruling was incorrect, another court in the controlling jurisdiction has ruled or would rule otherwise, or the provision might be enforceable against the person who is being asked to sign it under reasonably foreseeable circumstances.

To say that “illegal” means “illegal” under controlling law does not clarify what the opinion covers or excludes. Business & Professions Code § 16600, does not state that non-compete terms are “illegal” in the sense that forming such an agreement violates the law. It states instead that they are “void,” which means unenforceable.

- This is consistent with Neil’s and CLA’s identical comments and Richard’s first comment discussed above and we revised this footnote. This also appears to be based on the example provided, which McGowan and others feel is limited to void or unenforceable contracts as opposed to illegal.
- The concept of an illegal agreement should be limited to agreements that are unlawful to propose or to consummate. Examples include price-fixing agreements, agreements restraining a lawyer’s right to practice (CA Rule 5.6(a)), or agreements precluding reports of a violation of the rules of conduct. (CA Rule 5.6(b); Business & Professions Code Section 6090.5). The concept should not extend to agreements that will not be enforced but which are not illegal to form.
 - Again, this seems based solely on the example. Our opinion is intended to focus only on illegal contract provision. We conclude that a lawyer shall not counsel or assist a client in presenting as lawful a contract provision that the lawyer knows violates the law, or otherwise defend the legality of the provision to a third party.
- Disagrees with our conclusion that Rule 1.2.1 is broader than ABA Model Rule 1.2(d) because it forbids a lawyer from counseling or assisting in “a violation of any law, rule, or ruling of a tribunal.” He argues that under canons of interpretation, this phrase must be construed with reference to “criminal [and] fraudulent.” This rule should be limited to laws that forbid formation of an agreement, not laws declaring that a term will not be enforced.
 - David’s interpretations would render the term “violation of any law, . . .” superfluous. His argument rests again on the premise that our opinion is only addressing an unenforceable contract provision, not an illegal provision.
- Disagrees with definition of fraud and following conclusion: “Promulgating or enforcing a knowingly illegal provision in an employment agreement for its chilling effect on third parties would violate rule 4.1(a), rule 8.4(c), and Business and Professions Code section 6068(d).” He does not agree that promulgating (giving counterparty copy of the agreement without making any express representation regarding enforceability) a contract with a void provision would violate these rules.

Claims that our conclusion appears to rest on unstated premise that noncompete is enforceable versus representation of what the law allows.

- Again, this comment appears to rest on the mistaken premise that our opinion is addressing an unenforceable provision. As noted, we reconsidered the use of the term “promulgate” and revised to avoid any misunderstanding.
- The Draft Opinion notes that deceit may exist “where a lawyer makes a partially true but misleading material statement or material omission.” That observation is correct but is relevant only if a partially true statement of fact or law is made. Draft agreements are not opinion letters, and no concealed facts are involved. Reference to Formal Opinion 2015-194 is thus inapt. In a settlement context, a third party represented by their own counsel would not be able to discern a material fact that was concealed, whereas the party would be able to determine provision is illegal with advice from counsel.
- We did not make revisions in response to this comment. To the extent a lawyer is involving in promoting or enforcing the illegal provision, a reasonable consumer may be misled into believing the provisions are legal and enforceable.
- With respect to enforcement of an illegal term, he claims other rules more directly address. Rule 3.1 forbids a lawyer from bringing or continuing an action without probable cause and for the purpose of harassment (effectively what the proposed opinion refers to as “chill”). A lawyer dealing with an unrepresented third party is already forbidden by Rule 4.3 from advising them, except to retain their own lawyer. And by hypothesis a third party with a lawyer will not be contacted by counsel for the proponent of an illegal term (Rule 4.2) but will be told by their own lawyer of the unenforceability of a term.
- No revisions made in response to this comment. See above response to Neil’s comment. It is not clear how Rule 3.1 applies to our scenarios. Despite the limitations on communications with represented and unrepresented parties under Rules 4.2 and 4.3, a violation of Rules 4.1(a) or 8.4(c) could still occur. For example, a lawyer could send a demand letter on behalf of the company to an unrepresented party threatening to enforce the illegal noncompete provision.
- Based on the issues noted above, he disagrees with conclusion regarding withdrawal. Rule 1.13(b) compels reporting “up the ladder” only if an entity constituent’s conduct is both (i) unlawful and (ii) likely to result in substantial injury to the entity. The Draft Opinion acknowledges that this is a fact-specific inquiry, but then in a footnote asserts categorically that “use of an illegal provision is likely to result in substantial injury,” citing a Labor Code provision stating that employers may not require employees to agree to contract terms known “to be prohibited by law.” Section 16600 does not forbid inclusion of non-competes but declares them to be void. And the text of the Rule states that violation of a law alone does not compel reporting up.

- No revisions made in response to this comment. As noted above, in *Arthur Anderson*, the Supreme Court clearly stated non-competes are prohibited by Section 16600. In any event, our draft opinion is not intended to address only non-compete agreements.
 - Outside the context of non-competes, the Draft Opinion “will raise more questions than it answers.” For example, is inclusion of an arbitration provision illegal if it does not explicitly enumerate causes of action courts have found non-arbitrable? An example would be a standard employment agreement specifying arbitration but not stating that PAGA claims, Labor Code Section 2698 *et seq*, are not subject to it. Labor Code Section 432.6 states that employers “shall not” require employees to “waive any . . . forum” for a violation of FEHA or the Labor Code? A term doing so would seem to be illegal on its face unless that provision is itself pre-empted by the increasingly broad sweep of the Federal Arbitration Act. A district court enjoined this provision—is the decision of one such court enough to exempt such agreements from the scope of the Draft Opinion?⁴ The Ninth Circuit recently vacated that injunction in *Chamber of Commerce v. Bonta*, 13 F.4th 766 (9th Cir. 2021), which held that the statute itself is not preempted by the FAA because a prohibition on “requiring” employees to arbitrate does not foreclose voluntary agreements, but which also held that penalties for violating the statute are preempted because they are impediments to the policy of the FAA. Does the Draft Opinion mean that a lawyer may help a client draft such a term but may not allow the client to “require” it? What might that mean?
 - No revisions made in response to this comment. The arbitration provision would be legal in certain situations, so it is not covered by the scope of the opinion. Fn. 2 explains that the opinion does not address a provision that might be enforceable against the person who is being asked to sign it under reasonably foreseeable circumstances. We believe the preemption issue would also be beyond the scope based on fn. 2 as the lawyer would have a good faith belief that the California prohibition would be subject to preemption.
- **LACBA Ethics Committee**
 - The Draft Opinion does not address conduct that is a violation of law. Instead, the draft opinion concerns an unenforceable contract provision, which the draft opinion characterizes as “illegal.”
 - See above. We revised to clarify definition of illegal and used the term “violation of the law.”
 - With reference to non-compete example, claims this provision is unenforceable and that the draft opinion does not explain how a lawyer would have actual knowledge that including an unenforceable clause in a contract would be a violation of law in the absence of a law that enjoins the act of including it.
 - No revisions made in response to this comment. We are addressing conduct that is a violation of the law.

- Calling an unenforceable contract clause “illegal” does not answer the question whether the conduct of including an unenforceable clause in a contract is a violation of law, particularly when none of the legal authorities state that such conduct is a violation of law.
 - We disagree for the reasons noted in response to Neil’s comments.
- Whether a lawyer may seek to enforce an unenforceable provision would be governed by rule 3.1, not rule 1.2.1(a).
 - See above. We don’t believe rule 3.1 applies to our scenarios.
- They agree with footnote 2 but claim the sole example in opinion is inconsistent.
 - These issues overlap with the comments addressed above.
- **Laurence Hummer**
 - Disagrees with the conclusion that the lawyer's inclusion of a contractual term that is illegal or unenforceable is a misrepresentation by the lawyer to the other party that the provision is legal or enforceable.
 - This overlaps with comments addressed above.
 - Refers to examples of real estate brokers or paralegals using form agreements that may contain unenforceable provisions.
 - The CRPC do not apply to real estate brokers or paralegals. If the lawyer uses a form agreement and does not know the provision is illegal, Rule 1.2.1 would not apply.
- **AG Rob Bonta**
 - Supports Draft Opinion and emphasizing the need for this guidance, especially given California’s longtime public policy favors the freedom of workers to seek any lawful employment they choose, and therefore prohibits non-compete agreements or other arrangements that seek to undercut that mobility.
 - Because unenforceable non-compete provisions remain widespread in employment contracts in California, we need clear ethical guidance to prohibit the participation of attorneys in formulating or promoting any such unlawful contract provisions.
- **Peggy Kong**
 - Supports Draft Opinion based on her personal experience of being presented with a contract that she claims was illegal and references State Bar complaint.

- **Worker and Consumer Advocates, Attorneys, and Labor Organizations (Towards Justice, California Employment Lawyers Association, Open Markets Institute People’s Parity Project Justice Catalyst, Legal Aid at Work, National Consumer Law Center)**¹
 - Disagree with Wertlieb’s comments made at Dec. COPRAC meeting.
 - Wertlieb’s claim that assisting a client to draft an illegal or unenforceable contractual term for the purpose of presenting it to potential counterparties is not conduct within meaning of Rule 1.2.1 is in correct as a matter of logic and California law.
 - This overlaps with Zitrin’s comments and drafting/assisting a client in drafting an illegal contract term does appear to be “conduct” within meaning of the Rule. The Rule does not refer to the term “unenforceable” and we should follow the terms in the Rule as suggested by other public comments noted above.
 - Points to unpublished C.D. Cal. case for proposition that drafting parties that present and enter into illegal and unenforceable contracts gain a substantial benefit because “the drafters of such unenforceable provisions are often rewarded [by the] chilling effect they have. . . .”
 - Also references California appellate court cases in unfair competition context and Labor Code section 432.5 for proposition that entering into an unenforceable or illegal contract is conduct that violates the law.
 - Suggests that the Committee should remove the second sentence of footnote two and replace any reference to “illegal” in the Draft Opinion with “illegal or unenforceable.”
 - Claims there is ample case law concluding that entering into and maintaining an unenforceable non-compete agreement is illegal in California. *See, e.g., Dowell v. Biosense Webster, Inc.*, 179 Cal. App. 4th 564, 575, 102 (2009); *Application Grp., Inc. v. Hunter Grp., Inc.*, 61 Cal. App. 4th 881, 908 (1998). And requiring an employee to agree to a contractual term “prohibited by law” can amount to an independent violation of the Labor Code. Lab. Code. § 432.5.
 - The suggestion, however, that there may be other kinds of terms that are “legal, but against public policy, unenforceable or subject to some other prohibition” is unsupported by California law and risks undermining the core purposes of the Draft Opinion.
 - Nothing in the Rules of Professional Conduct suggests a meaningful distinction between “illegal” and “unenforceable.” Rule 1.2.1 covers terms that are “in violation of any law, rule, or ruling of a tribunal.” Even if a term were

¹ The letter is unsigned.

“unenforceable” and not “illegal,” it would be in violation of the law or rule that proscribes its enforceability.

- The difference between illegal and unenforceable terms is irrelevant to whether the attorney’s conduct is ethical. It is unclear what the purpose could be of advising a client to use a term the attorney *knows* to be unenforceable except to deceive the non-drafting counterparty. Courts in California and elsewhere have recognized that unambiguously unenforceable contractual terms are likely to deceive non-drafting parties about their rights. Therefore, counseling a client to use a term that is clearly unenforceable is unethical under Rule 1.2.1’s prohibition against counseling a client to engage in “fraudulent” conduct, whether or not it is also deemed to be “in violation of any law.”
- Recognizes that the term “unenforceable” could be ambiguous or difficult to apply as it raises fact-specific questions, particularly in the unconscionability context, but claims this is avoided by clarification that attorney must know that the term is unenforceable. Also suggests that the Committee could limit opinion to unenforceable terms in standard form contract to avoid this confusion.
 - We decided to use language directly from Rule 1.2.1. As these comments recognize, the term “unenforceable” does raise fact-specific issues regarding conscionability that aren’t necessary mitigated or avoided by the requirement that the attorney “know” the term is unenforceable or limiting the opinion to standard form contracts.
- Requests that the Committee clarify that its Draft Opinion specifically addresses non-compete clauses and similar agreements like liquidated damages provisions and training-repayment agreements.
- Notes ubiquitous use of illegal non-competes and their substantial chilling effect on employees.
 - We may not address issues of law. It is not clear that non-compete or similar agreements are illegal in all factual circumstances. We also don’t want to limit the opinion to these types of agreements and intend to broadly cover all agreements that might fall within the scope of Rule 1.2.1.