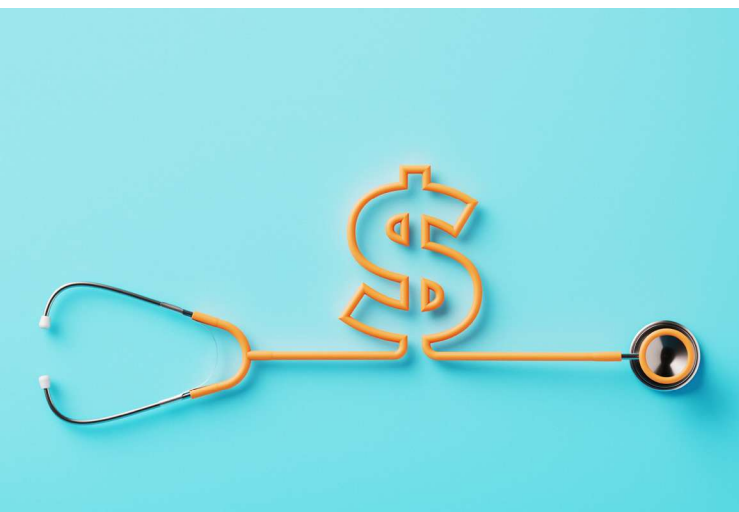


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### PBN Perspectives

## Targeted: Corporate practice of medicine. Watch MSO deals as lawmakers act.

A congressional draft bill aiming to ban the corporate practice of medicine (CPOM) is just the most recent example of a growing skepticism toward private equity ownership of physician practices or any other clinical/non-clinical management arrangement. If you're looking at such a deal — or if you're already in one — pay attention, because it could affect how your practice is run.

On Sept. 16, U.S. Senators Elizabeth Warren (D-Mass.), Jeff Merkley (D-Ore.) and Ron Wyden (D-Ore.) introduced the "Stop Corporate Takeovers of Physicians Act." Their cover letter says the bill would "ban the corporate practice of medicine by making it illegal for private equity funds, insurance companies, and other for-profit corporations to own or control medical practices."

The bill itself says it will do this by not allowing those entities to "own or control, in whole or in part, a medical practice; employ, or enter into a contract for the professional services of, a licensee; or engage in the practice of medicine."

The Senate bill resembles Oregon's SB 951, signed into law in June. At that time, Sen. Warren said in a post on X that the Oregon law offered "the strongest protections against corporate profiteering in health care" and that Congress "should follow and get private equity out of health care nationwide."

Like the Oregon law, the Senate bill focuses on management services organizations (MSO), which are employed

## Upcoming: Specialty Coding Summits

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to allow corporate entities to supervise non-medical functions of medical businesses they have acquired, as permitted by state laws. The medical supervision is generally required to be supplied by a professional corporation (PC), which is run by medical providers licensed in that state ([PBN 6/25/12](#)).

Per Permit Health of New York City, 33 U.S. states have CPOM laws that regulate these arrangements; other states, however, usually have some kind of regulations that apply and some use the MSO/PC model.

Oregon's law prohibits MSOs or related entities from owning or controlling the PC via various means, including stock ownership.

Those are the same prohibitions spelled out in the Senate bill, which also specifies kinds of medical decisions reserved to medically licensed managers, such as "specifying the period of time a licensee may spend with a patient" and "determining the clinical status of a patient."

The bill also requires PC management to be "licensed and present in a State where services to patients are furnished by the medical practice; and ... substantially engaged in delivering medical care." These requirements are meant to restrict outside owners' practice of hiring "friendly" (aka "captive") physicians to run PCs according to the MSO's wishes.

## An anti-MSO trend

While it would seem current CPOM laws already require a wall between medical and non-medical entities' decision-making powers, some lawsuits and state attorney general actions suggest that these may be insufficient to protect the integrity of these arrangements.

The plaintiffs in the recent Art Center Holdings suit in California, for example, argued successfully that an MSO was in violation of state CPOM law when it fired a physician and, when the "friendly" physician running the PC resisted, fired them as well ([PBN 6/15/26](#)). The case is currently being appealed.

California is also the scene of some aggressive actions by the attorney general, such as the Carbon Health settlement. Attorney General Rob Bonta investigated alleged CPOM violations at the large medical chain and determined they had "used a structure in which a corporate entity not licensed to provide

medical care effectively owned and controlled all aspects of the medical practice," and forced a significant settlement.

## Breaking into a 'groundswell'

Other recent state legislature bills are tightening the screws. "Government oversight of private equity in the health care industry is really gaining traction," says Henry Norwood, a health care attorney with the Kaufman Dolowich firm in San Francisco.

Different states have taken different approaches, Norwood says, and have targeted various aspects

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### PART B NEWS TEAM

#### Adrienne Trivers

Vice President, Product  
[adrienne.trivers@hcpro.com](mailto:adrienne.trivers@hcpro.com)

#### Marci Geipe

Senior Manager, Product and Content  
[marci.geipe@hcpro.com](mailto:marci.geipe@hcpro.com)

#### Richard Scott

Content Manager  
[richard.scott@hcpro.com](mailto:richard.scott@hcpro.com)

#### Roy Edroso

Editor  
[roy.edroso@hcpro.com](mailto:roy.edroso@hcpro.com)

#### Julia Kyles, CPC

Editor  
[julia.kyles@hcpro.com](mailto:julia.kyles@hcpro.com)

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of private equity ownership. “For example, laws in Connecticut and Massachusetts focus heavily on hospital sale leaseback transactions, which occur when hospitals separate their hospital operations from their real estate, selling the latter to investment trusts, while Maine imposes a mandatory pre-acquisition review period by state agencies, which must approve of a private equity purchase of a hospital organization.”

And some states like Vermont “focus on prohibiting private equity from interfering with the independent clinical judgment of providers,” Norwood adds. He expects state-based regulation and tightening of professional practice rules to increase “as the public become more aware of this growing situation.”

“This feels more [like a] groundswell than blip,” says Harvey Castro, M.D., a former emergency room physician and current advisor to the CEO of Phantom Space AI firm. “State CPOM tightening and the congressional push track real clinician anxiety about control of clinical judgment, not just deal flow.”

## Perils of PE

Private equity penetration in medical practice crept up in recent years. The AMA and the U.S. Government Accountability Office (GAO) pegged it at 6.5% ownership of such practices in 2024, which the AMA said was up from 4.5% in 2022 ([PBN 12/31/25](#)). Note: Industry source Morningstar’s PitchBook finds that “healthcare services PE remained under pressure in Q2 2026, with deal count declining 18.5% YoY,” though it attributes this to higher interest rates and softer health care utilization, in addition to regulatory concerns.

Daniel B. Frier, co-managing partner of the Frier Levitt firm in Pine Brook, N.J., finds the rise understandable. “The practice of medicine has evolved dramatically over the last 10 years but the law has not kept up with the actual business and clinical changes,” he says, including the fact that “reimbursement rates have not kept up with inflation.” The resulting shrinking margins, Frier says, have “made it more and more difficult for the traditional community physician practice to survive. So the physicians have sought out alternatives such as hospital employment and private equity.”

Paul Deeringer, partner with Hooper Lundy Bookman in San Francisco and former associate general counsel for John Muir Health, says regulatory

and enforcement efforts in this area “tend to focus on control issues” rather than on the provenance of the non-clinical management partner. “There have been some industry understandings about the kinds of control mechanisms you could permissibly include in MSO arrangements: Continuity arrangements, stock transfer restriction agreements, for example,” he says.

Such continuity agreements “typically have language that preserves the professional medical judgment of the physicians,” Deeringer notes. “I think what you’re seeing now is an increased emphasis and scrutiny of whether that professional medical judgment is, in fact, being preserved, or whether some of those control mechanisms lead to a situation where the arrangement might impinge on that physician’s realistic ability to exercise their independent judgment.”

Nonetheless, PE firms are in the crosshairs, and Barry Posner, a partner with Kudman Trachten Aloe Posner LLP in New York City, thinks in the current environment they’ll “have to give real consideration to the regulatory risk of entering the space, particularly if they’re looking at a three-to-five-year exit.”

## Bill, trends set a precedent

The Warren bill clearly faces stiff headwinds in the current Republican-controlled Congress. Even if Democrats gain majorities in one or both Houses after the midterms, President Trump would likely veto it, requiring a daunting supermajority override to pass into law.

“There are hundreds — or thousands — of private equity funds and other companies that are heavily invested in the physician services sector,” says Gary W. Herschman, health care shareholder with the Baker Donelson firm in Iselin, N.J. “It’s going to be hard for politicians to pass a law saying this is unlawful.”

Yet the bill’s existence, and states’ growing signals of resistance to non-medical ownership of medical organizations, may still have an effect on these arrangements. Even unpassed the bill “provides a roadmap and model legislative language for states that might be considering this kind of legislation,” Deeringer says.

Whatever happens to the bill, Herschman compares its potential impact to that of the Biden FTC’s rule that would have essentially ended noncompete agreements for medical organizations ([PBN 5/6/24](#)). Though it was eventually blocked in federal court, Herschman notes

that “several states passed laws prohibiting noncompetes” anyway, because the rule “got everybody hyped up about it, which could happen now with CPOM enforcement as well.”

Herschman says he’s already been approached by private equity platforms “to advise them about what they need to do to beef up their CPOM compliance, mainly in connection with safeguards and implementation, as well as documentation.”

The environment calls for that sort of oversight, as officials grow more attentive and aggressive.

## What to do

**Soften the terms.** In the current environment, Frier suggests that deal-makers exercise some prudence: An MSO should be set up in a way “that’s deferential to the clinicians,” he says “so that if there’s a law passed, you don’t have to change your entire business model.”

For example, the “friendly” physician arrangement, especially with a ruling provider who doesn’t practice, “presents a bad picture” if a litigant raises a complaint, Frier says: “If a judge takes a look at that, they’re more likely to have a negative holding that would also be applied to many other situations.” Hiring from within the acquired practice might look better to the bench.

**Be ready for longer lead times.** If you’re looking to make deals, be aware that in some states new laws have lengthened the process. “For example, Oregon and Maine both have 180-day pre-closing notice requirements, and in both of those states the process also includes substantive approval authority,” Deeringer says. Other states have shorter hang times but “these are all statutory minimums that can be extended by requests for additional information or other factors.”

**Become a public benefit corporation (PBO).** Frier also suggests PE-owned MSOs “seriously consider becoming public benefit corporations,” as is permitted in some states, to improve the image of the practice and to reduce exposure if MSO shareholders decide medical decisions by a legitimate PC are detrimental to profits.

A PBO is “a for-profit corporation that requires the company to make decisions primarily for the benefit of some public purpose, as opposed to increasing the

profitability of its investors as its primary goal,” Frier explains.

That model would be “optically positive” for MSOs, Frier believes, and “would enable them to focus on patient care above profitability in its medical decisions while still yielding a profit for their investors” — which, after all, is supposed to be the goal.

**Make a board.** Erika L. Adler, shareholder and practice group manager, health care for Roetzel & Andress LPA in Chicago, is seeing MSOs that want to show sensitivity to clinical concerns setting up clinical governance committees. These committees typically hammer out a comprehensive list of “clinical decision” areas that will be left to physicians.

That would make a good-faith showing to regulators and investigators, Adler says. But, she cautions, however good it looks, if there’s a problem “then the facts are going to prove whether the approach is really working or not. Regulators will look at what actually is going on; investigators will ask doctors whether they’re not allowed to order tests.” Make sure your action conforms to your committee documents. — *Roy Edroso* ([roy.edroso@decisionhealth.com](mailto:roy.edroso@decisionhealth.com)) ■

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## RESOURCES

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