

Steps to Success

THE LAW SOCIETY OF BRITISH COLUMBIA
ANNUAL REPORT 2007





STEPS TO SUCCESS

THE THEME FOR THE LAW SOCIETY OF BC'S ANNUAL REPORT 2007 DRAWS ITS INSPIRATION FROM THE ARTHUR ERICKSON-DESIGNED LAW COURTS BUILDING IN VANCOUVER. "STEPS TO SUCCESS" ALSO SUMMARIZES THE LAW SOCIETY'S VISION OF ITS REGULATORY AND SERVICE PROGRAMS AS ESSENTIAL ELEMENTS OF PROTECTING THE PUBLIC INTEREST IN THE ADMINISTRATION OF JUSTICE AND SUPPORTING LAWYERS IN THEIR EFFORTS TO PROVIDE EXCELLENT SERVICE TO THE PUBLIC.

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President's Message

As I sat down to write my last official article for the Law Society, it struck me as somewhat redundant for me to recite its strategic and operational achievements of the past year. If you religiously read last year's *Benchers' Bulletins* and attended the 2007 annual general meeting, you are already familiar with them, and they are dealt with elsewhere in this report. So, I have decided to break with tradition and instead offer you some reflections on my 10 years as a Bencher and 12 months as president.

My first president's "ah-ha!" moment actually occurred before I took office, when I was presented with the president's pin by then-President Robert McDiarmid, QC at the Life Benchers dinner in December 2006. At that moment, I realized just how great an honour it was to serve you as the Law Society's president and just how dauntingly big were the shoes I would be filling.

Another memorable moment came last November, in speaking at the free public forum held in conjunction with the *Lawyers without Rights* exhibit in Vancouver. Co-sponsored by the Law Society, the Simon Wiesenthal Center for Holocaust Studies and the Vancouver Holocaust Education Centre, the forum featured speakers from Israel and Germany, with the full-house audience including survivors of the Holocaust, judges, lawyers, media and the public. The forum was a somber and timely reminder of what can happen if we allow the rule of law to be manipulated by those who wish to do evil, and is a good example of what the Law Society can and should do to educate the public about the vital role of law and lawyers in a free and democratic society. I am pleased to note that the Law Society is hosting a public forum on youth justice in 2008.

As president, I had the pleasure of welcoming new members to the Law Society at various call ceremonies last year. I was struck by the eagerness and optimism the candidates display at the prospect of becoming a lawyer. The practice of law is changing with advances in technology and globalization and undoubtedly, these new lawyers' professional experiences will be different than mine. I do hope, though, that they find as much joy and fulfillment over the course of their legal careers as has been my good fortune. As I reminded them at the call ceremonies, the practice of law is a noble and honourable profession and they must all do their part in upholding its honour and integrity in all that they undertake.

Over my tenure as a Bencher and ultimately as president, I have been fortunate to observe much good in the Law Society and I want to assure you that the institution remains in able hands. The Benchers, including our invaluable Lay Benchers, give unselfishly of their time and expertise because they care deeply about the public interest in the administration of justice and the betterment of the legal profession. I have benefited greatly from their wisdom and friendship over the years — particularly in my year as president when difficult issues arose — and I thank them for their constant support and encouragement.

The employees of the Law Society, ably led by CEO Tim McGee and his senior management team, form one of the best staff groups that I have had the privilege to work with and get to know. These women and men are hard working, devoted and capable individuals who pull together to advance the public interest in the self-regulation of the legal profession.

Voltaire said, "Everyone is guilty of the good that he [she] does not do." The dedicated Benchers and staff of the Law Society disprove that by the extra miles they go, day in and day out.

My goal as president was to leave the Law Society in better condition than I found it. If I have not succeeded, I alone am to blame; if I have achieved a measure of success, our Benchers and staff, along with the society's many volunteers, deserve all the credit. Thank you, all, for the privilege of serving as your president.



A handwritten signature in black ink, reading "Anna K. Fung". The signature is stylized with a long, sweeping underline.

Anna K. Fung, QC
President

Chief Executive Officer's Message

I invite you to read about the Law Society's many activities over the past year in the following pages of our 2007 Annual Report.

Among those activities, I believe two initiatives launched in 2007 stand out as having the most potential for positive impact on the Law Society's core regulatory operations and strategic direction in the years ahead.

The first relates to measuring the effectiveness of our organization. The Benchers have approved a set of Key Performance Measures — clear operational goals and objectives along with defined measurement standards — to support and guide the assessment of each of the Law Society's regulatory and service programs. These Key Performance Measures will help managers to track actual performance against specific targets, focusing on the outcomes of our programs and operations. For example, we will measure complainants' satisfaction with the timeliness, thoroughness and fairness of our Professional Conduct department's handling of complaints. We will also measure members' satisfaction with the timeliness and responsiveness of advice and information provided by our Practice Advice department. We will assess other core areas in similar fashion.

Measuring actual performance against targeted outcomes encourages management to evaluate its processes and resources critically, and to determine which are most effective in achieving the Law Society's objectives. The information provided by these metrics will also improve the Benchers' ability to assess the success of the Law Society's programs and to ensure we are pursuing best practices for self-regulating professions. A list of the society's Key Performance Measures and a report on the first full year of performance measurement will be published at the end of 2008. This "outcomes" approach is the first of its kind among law regulators in Canada and I hope that it will accelerate the adoption of much sought-after national standards for regulation of the legal profession.

A second key initiative of 2007 involved a number of Benchers governance changes designed to improve the process for establishing and implementing the society's policy priorities and strategic planning.

Foremost among these changes is a new cycle for Benchers meetings which dedicates specific meetings in each year to in-depth review and analysis of strategic policy options. Policy-based committees and task forces have also been revamped to ensure that such groups are created with mandates that directly support the Benchers' stated priorities. This will improve management's ability to match precious financial, staff and volunteer resources to the most important policy goals of the organization. These changes will take time and effort to implement successfully, but 2007 marked an important first step toward our goal.

On a broader front, the Law Society continued to rely on the dedication and skill of its many lawyer and non-lawyer volunteers from all walks of life who participated in the work of the society's committees and task forces over the past year.

2007 was also an election year for Benchers. We welcomed Marguerite (Meg) Shaw, QC and David Mossop, QC as new Benchers for the current term, and Robert Brun, QC as a returning Benchers after a term away; each of whom brings valuable experience and insight to the Benchers table. Sadly, early in the year we lost Lay Benchers Michael Falkins, who passed away after a long battle with cancer. Mike contributed a consistent, positive outlook and dedication in representing the public interest. We are grateful for his friendship and commitment.

I would like to thank all of the Law Society's staff for their dedicated service throughout 2007. Our employees are committed and engaged in the work they do and I am proud to be part of this team. I would also like to thank the Benchers for their generous contributions of time, energy and wisdom over the past year. In particular, I want to recognize the outstanding support and guidance provided by our 2007 President, Anna K. Fung, QC and to extend a warm welcome to our 2008 President, John J.L. Hunter, QC.

Looking forward, the progress achieved on a number of fronts in 2007 will enable the Law Society to respond more effectively to the challenges of regulating the legal profession in our fast-paced and rapidly changing world.



A handwritten signature in black ink that reads "Timothy McGee". The signature is stylized with a large, sweeping initial 'T' and 'M'.

Timothy E. McGee
Chief Executive Officer

LEADERSHIP AND GOVERNANCE

Public Interest Mandate

A COMPETENT, HONOURABLE AND INDEPENDENT LEGAL PROFESSION IS FUNDAMENTAL TO A FAIR AND EFFECTIVE JUSTICE SYSTEM AND IS ESSENTIAL TO UPHOLDING THE RULE OF LAW, WHICH IS THE FOUNDATION OF CIVIL SOCIETY.

THE SOCIETY IS RESPONSIBLE FOR THE LICENSING, COMPETENCE, PROFESSIONAL CONDUCT AND DISCIPLINE OF LAWYERS IN BC.

The Law Society's mandate is set out in section 3 of the *Legal Profession Act*:

Public interest paramount

3. It is the object and duty of the society

(a) to uphold and protect the public interest in the administration of justice by

- (i) preserving and protecting the rights and freedoms of all persons,
- (ii) ensuring the independence, integrity and honour of its members, and
- (iii) establishing standards for the education, professional responsibility and competence of its members and applicants for membership, and

(b) subject to paragraph (a),

- (i) to regulate the practice of law, and
- (ii) to uphold and protect the interests of its members.



The Benchers and Chief Executive Officer (September 2007)

FRONT: President Anna K. Fung, QC (Vancouver County)

FIRST ROW, LEFT TO RIGHT: Barbara Levesque (Lay Benchers), CEO Timothy E. McGee, G. Glen Ridgway, QC (Nanaimo County), First Vice-President John J.L. Hunter, QC (Vancouver County), Second Vice-President Gordon Turriff, QC (Vancouver County), Rita C. Andreone (Vancouver County)

SECOND ROW, LEFT TO RIGHT: Bruce A. LeRose, QC (Kootenay County), Leon Getz, QC (Vancouver County), Gavin H.G. Hume, QC (Vancouver County), Joost Blom, QC (Vancouver County), Robert D. Punnett (Prince Rupert County), Thelma O'Grady (Vancouver County)

THIRD ROW, LEFT TO RIGHT: David M. Renwick, QC (Westminster County), Patrick Kelly (Lay Benchers), Kathryn A. Berge, QC (Victoria County), Terence E. La Liberté, QC (Vancouver County), Dr. Maelor Vallance (Lay Benchers), Kenneth M. Walker (Kamloops District), June Preston, MSW (Lay Benchers), David A. Zacks, QC (Vancouver County)

FOURTH ROW, LEFT TO RIGHT: James D. Vilvang, QC (Vancouver County), Jan Lindsay (Westminster County), Richard N. Stewart, QC (Victoria County), Ian Donaldson, QC (Vancouver County), Arthur E. Vertlieb, QC (Vancouver County), William F.M. Jackson (Cariboo County), Ken Dobell (Lay Benchers)

NOT PICTURED: Michael J. Falkins (Lay Benchers), Carol W. Hickman (Westminster County), Dirk J. Sigalet, QC (Okanagan District), Ronald S. Tindale (Cariboo County)

Benchers

THE LAW SOCIETY IS GOVERNED BY THE BENCHERS, WHO ARE CHARGED BY THE *LEGAL PROFESSION ACT* WITH RESPONSIBILITY FOR THE AFFAIRS AND ADMINISTRATION OF THE SOCIETY.

In fulfilling the mandate of the Society, the Benchers have stated that, “[they] will govern the Law Society of British Columbia with a strategic perspective through a continually improved capability to express values and vision.” See www.lawsociety.bc.ca (under Benchers, go to Governance Policies, Part 3, Governance Process). In November 2007, the Benchers sought to strengthen the strategic perspective of their meeting and working processes by committing to three improvements:

- the cycle of Bencher meetings during the year must be directed toward development and consideration of strategic priorities and plans, and the resources necessary to support those plans;
- the content of Bencher meetings must permit the Benchers to focus on what is most important, and to ensure that individual Benchers are sufficiently informed so they can meaningfully participate in knowledge-based decision making; and
- the relationship between the Benchers and the various committees, task forces and working groups must support the Benchers’ strategic priorities and plans, while ensuring that the regulatory work of the Law Society is done.

These Bencher initiatives will be reflected in a new process for Bencher priority-setting and strategic planning, beginning in 2008, and in a Key Performance Measures report to be released late that year.

In July 2007, the Benchers adopted a set of Key Performance Measures to ensure that the Society is making continuous improvements in its capacity to deliver on its regulatory and service programs. The Key Performance Measures will allow the Benchers to assess whether the programs and projects of the Society are contributing value and are consistent with their vision for the Law Society. In focusing on outcomes rather than outputs, the Key Performance Measures reflect the current best thinking about the assessment of self-regulatory organizations.



LEFT TO RIGHT: Ken Dobell, the late Michael J. Falkins, Dr. Maelor Vallance, June Preston, MSW, Patrick Kelly and Barbara Levesque.

Lay Benchers' Assessment

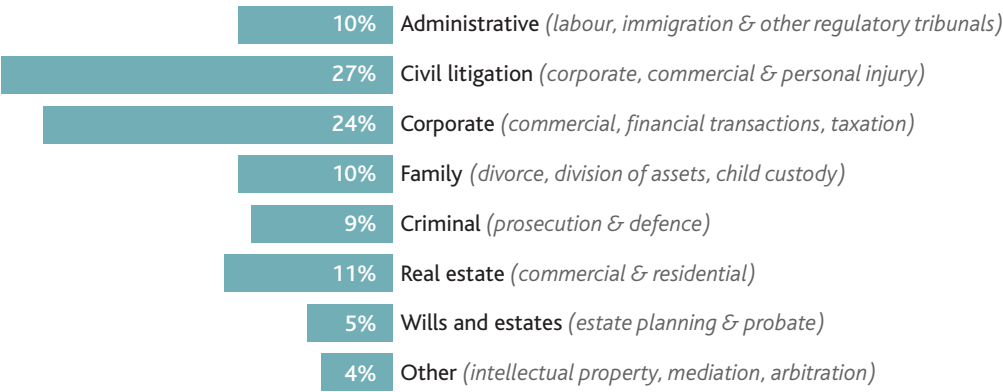
THE STATUTE GOVERNING THE LAW SOCIETY OF BC — THE *LEGAL PROFESSION ACT* — MAKES IT CLEAR THAT UPHOLDING AND PROTECTING THE PUBLIC INTEREST IS THE SOCIETY'S PARAMOUNT OBJECT AND DUTY.

The Lay Benchers make an important contribution to the public interest through their participation in the governance of the Society. The following is the collective assessment of the 2007 Lay Benchers.

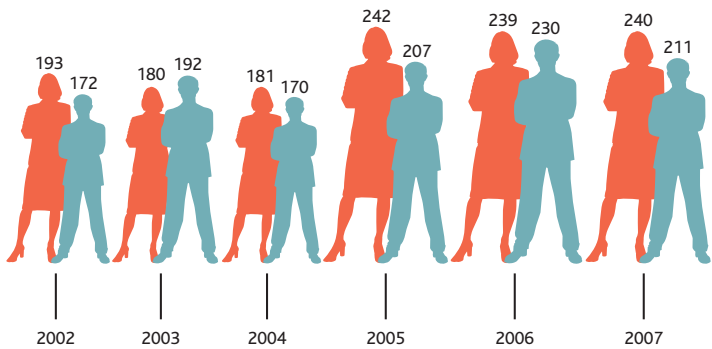
"The Lay Benchers confirm that Law Society of BC's staff and Benchers consider the public interest to be of paramount importance and continuously strive to protect it. The Lay Benchers participate in all aspects of Law Society governance activities and decisions, including Benchers meetings and committees that address core responsibilities such as discipline, credentials, practice standards, complaints, lawyers education, equity and diversity, ethics, and others. In any background work, debate, and decision on policy, rules, review panels, and issues large or small, the public interest prevails. It is standard practice that if a proposal before the staff or Benchers does not meet the public interest test, it does not proceed. Lawyer Benchers and Lay Benchers demonstrate a shared commitment to carrying out the duties of upholding and protecting the public interest in the administration of justice in BC.

As with other self-regulating professions, a common question from the public is, "Won't lawyers protect the interests of their members first?" The Law Society of BC does have a duty to ensure the independence, integrity and honour of its members. It also establishes standards for their education, professional responsibility and competence. However, lawyers' interests are always subject to the Law Society's paramount responsibility to protect the public interest in the administration of justice."

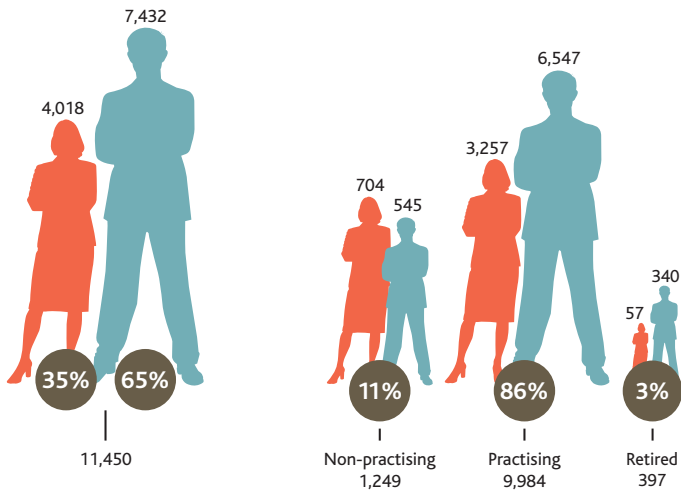
The Profession at a Glance



AREAS OF PRACTICE

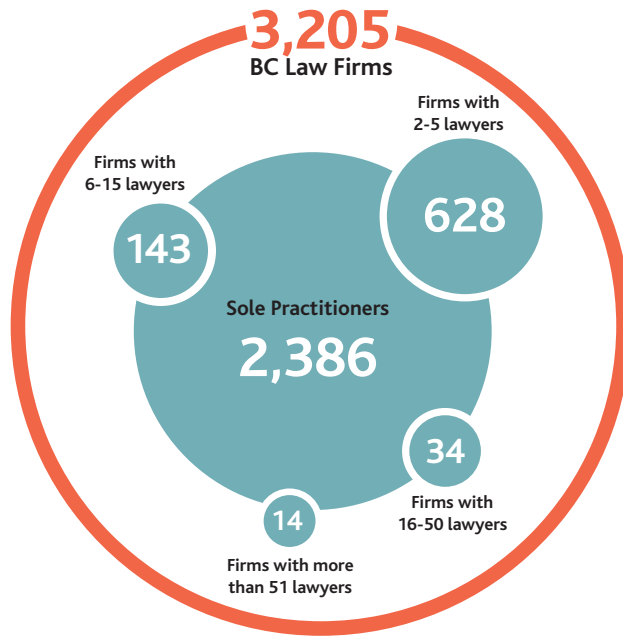


NEW BC LAWYERS

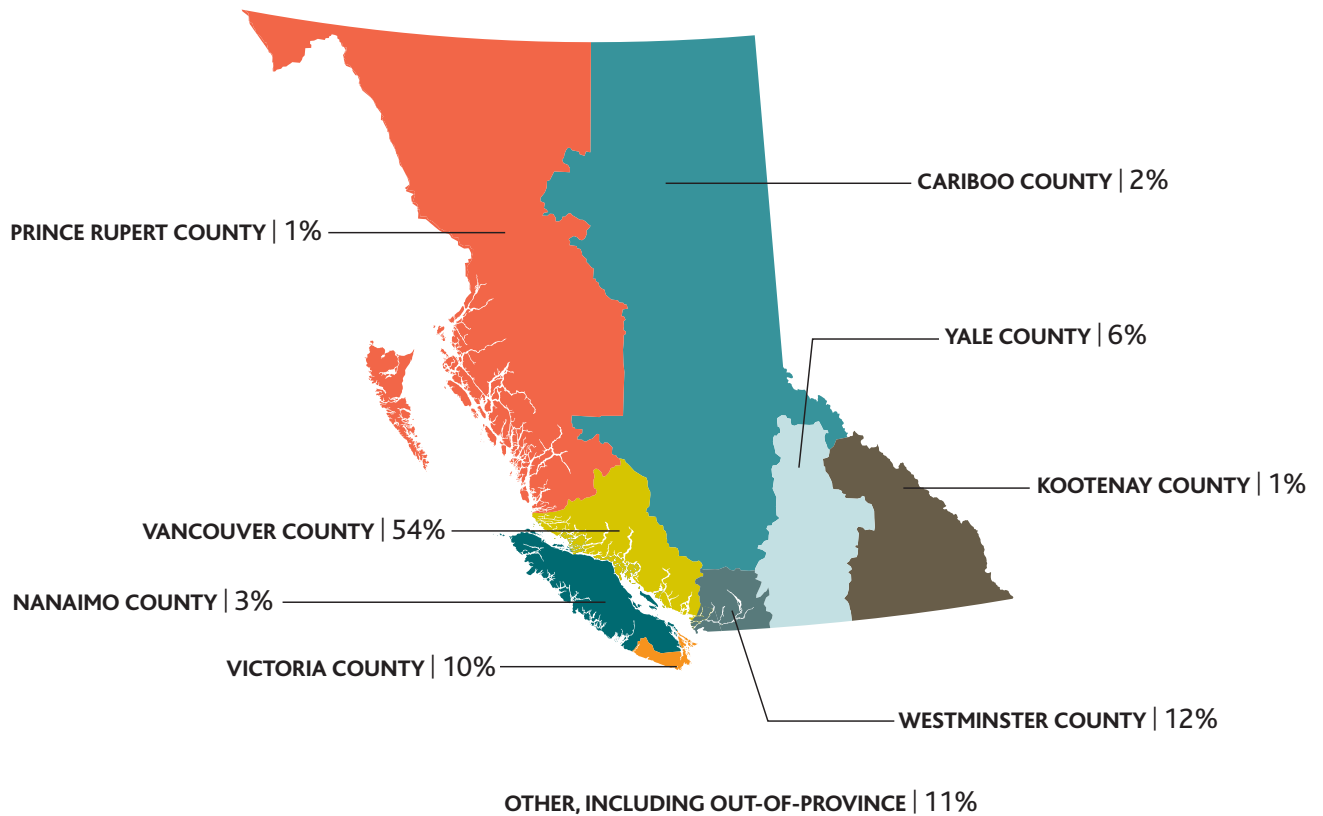


TOTAL BC LAWYERS

PRACTISING STATUS OF BC LAWYERS



LAWYERS AROUND THE PROVINCE



COMMENTARY



President Anna Fung, QC accepts award from Leo Adler, director of national affairs, Friends of Simon Wiesenthal Center for Holocaust Studies.



Jamie Maclaren, executive director of Pro Bono Law of BC, at the pro bono forum.



A packed house at the public forum on equal access for people with disabilities.

2007 in Review: Steps to success

It was a year of regulatory reform, service to the profession and public outreach. It was also a year of careful planning and hard work for Benchers and staff.

2007 saw the beginning of the new Trust Assurance Program. Designed to be a more effective means by which the Law Society can fulfill its duty to ensure lawyers comply with the trust accounting rules, the program introduced a more extensive self-report and relieved many firms of the cost of filing an accountant's report.

Custodianships came in-house in 2007. The change from outsourcing the work is expected to reduce the average cost of custodianships in future years.

Effective government relations facilitated changes to the custodianship program through an amendment to the *Legal Profession Act* that permitted the courts to appoint the Law Society, and not just an individual lawyer, custodian of a lawyer's practice. Other amendments to the Law Society's governing legislation involved the Practice Standards Program, the quorum for Bencher reviews of discipline decisions and the authority to obtain evidence from outside the province for discipline hearings.

The Small Firm Practice Course — a free, web-based educational resource for sole practitioners and small firm lawyers — went online in January. By mid-February, the course had generated more than 12,000 page views and by year end, more than 200 lawyer completions.

The Bencher support initiative, led by the Law Society's Policy and Legal Services Department, saw improvements to Bencher orientation and training, and to tribunal support.

Another key priority for 2007 was public outreach. The Society hosted two public forums. The first focused on equal access for people with disabilities. The second, *Lawyers Without Rights*, was organized in conjunction with a month-long exhibit on the fate of Jewish lawyers under the Nazis which the Law Society co-sponsored with the Friends of Simon Wiesenthal Center for Holocaust Studies and the Vancouver Holocaust Education Society. The Simon Wiesenthal Center also presented Law Society President Anna Fung, QC and Chief Executive Officer Tim McGee with special awards in recognition of their work in promoting the battle against intolerance. Other public outreach initiatives included a media law workshop co-hosted with the Jack Webster Foundation that was attended by more than 50 reporters in Victoria. The Law Society also worked with Pro Bono Law of BC to



Leo Adler, of the Friends of Simon Wiesenthal Center for Holocaust Studies, at the public forum Lawyers Without Rights.



Lay Benchers Michael Falkins.



Journalists at the Law Society-Jack Webster Foundation Media Law Workshop in Victoria.

organize a pro bono forum that saw 44 community agencies from around Vancouver meet with the major pro bono providers to discuss ways to improve referral services.

In May, the Lawyers Insurance Fund's new guide to avoiding missed deadlines hit the desks of lawyers in private practice. *Beat the clock: Timely lessons from 1600 lawyers* contains over 70 risk management tips, as well as a "Limitations and Deadlines Quick Reference List." The publication is the first of its kind in Canada and had immediate impact, with many lawyers saying that reading the guide led them to introduce new risk management programs into their practices. On the regulatory front, the Benchers authorized a new summary hearing process that will provide an efficient, and effective means for dealing with lawyers who fail to observe their regulatory obligations.

2007 also saw a collective agreement reached between the Law Society and the Professional Employees Association, bargaining agent for the society's staff lawyers, the election of three new Benchers, and two awards for Law Society President Anna Fung, QC — the YWCA Woman of Distinction Award and the Canadian Bar Association (BC Branch) Equality and Diversity Award.

Just as 2006 laid the foundations for 2007, so did 2007 for 2008. The Benchers approved a new post-call continuing professional development program. The program, which begins in 2009, will require all lawyers to complete at least 12 hours a year of approved educational activities. Another was a revamping of the Law Society's governance model that resulted in changes to the committee structure and policy development process. Yet another was the Law Society's adoption of a set of key performance measures to assess the success of its regulatory and service programs.

Federation of Law Societies

ONCE A RELATIVELY LOOSE AFFILIATION, IN RECENT YEARS THE FEDERATION OF LAW SOCIETIES HAS BECOME A MORE UNIFIED VOICE FOR CANADA'S PROVINCIAL AND TERRITORIAL LAW SOCIETIES.

On-going discussions with the federal government on regulations to combat money laundering continued in 2007. In another initiative, the increasing mobility of lawyers and rapid growth in the number of inter-provincial clients led to work on a model code of conduct that will assist law societies in harmonizing their ethical standards. The Federation is also coordinating a response to the federal Competition Bureau's report on self-regulating professions.

The Federation, led by President Michael Milani, QC of Saskatchewan, also strengthened its relationship with the federal government by moving its office from Montreal to Ottawa and by hiring a new chief executive officer, Jonathan Herman.

Throughout 2007, Law Society staff assisted the Federation with analysis, rules drafting and communications.

In 2007, the Benchers concluded that having the Society's president serve a one-year term on the Federation council did not provide enough continuity of representation. In December 2007, the Benchers approved a new protocol and agreed that starting in 2008, they would appoint either an elected Benchers or a Life Benchers for a three-year term. For the 2008-2010 term, the Law Society's representative will be Life Benchers Ian Donaldson, QC.

Ongoing Federation of Law Societies initiatives include:

- preparation of a national model code of conduct
- discussions with the federal Department of Justice concerning a protocol for law office searches
- monitoring World Trade Organization negotiations on the General Agreement on Trade in Services
- facilitating interprovincial and territorial lawyer mobility
- discussions with the Canadian Payments Association on a protocol for cheque imaging and retention
- working with the Canadian Bankers' Association on issues relating to timely provision of mortgage discharges by financial institutions
- ongoing discussions with federal government officials on anti-money laundering programs
- interventions in litigation where issues relating to the governance and independence of the legal profession are at stake
- CanLII, the national virtual law library
- the National Committee on Accreditation, which assesses and accredits foreign law degrees for purposes of applying for admission to Canadian law societies



Michael Milani, QC, president of the Federation of Law Societies, explains the Federation's work to the Benchers. Also pictured, left to right: Anna Fung, QC, president of the Law Society, Tim McGee, chief executive officer of the Law Society and Jonathan Herman, chief executive officer of the Federation.

REGULATORY PROGRAMS AND SERVICE DEPARTMENTS

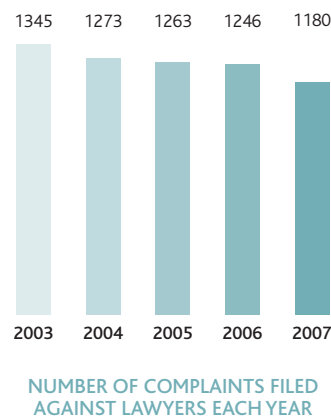
Professional Regulation

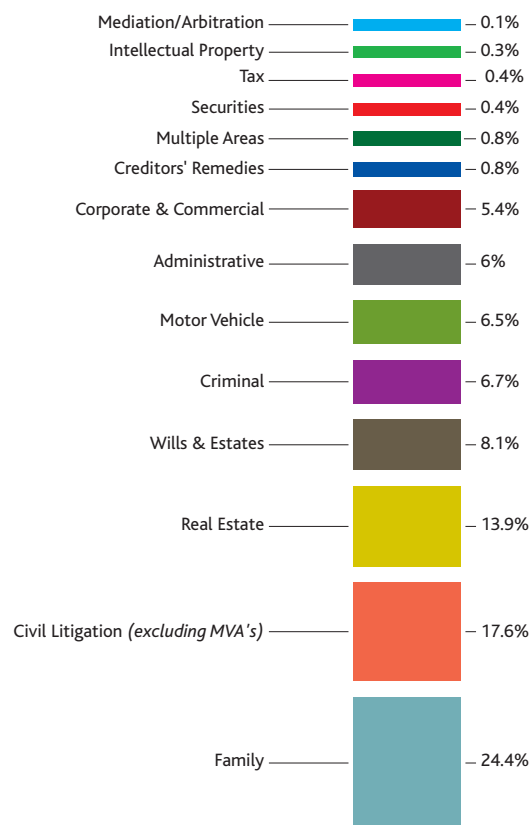
THE LAW SOCIETY’S PROFESSIONAL CONDUCT AND DISCIPLINE STAFF INVESTIGATE AND RESPOND TO COMPLAINTS ABOUT LAWYERS. WHERE POSSIBLE, STAFF SEEK TO RESOLVE COMPLAINTS THROUGH EARLY AND INFORMAL INTERVENTION, AND WHERE WARRANTED BY THE SOCIETY’S REGULATORY AUTHORITY AND THE EVIDENCE, THROUGH FORMAL DISCIPLINE PROCEEDINGS.

The regulation of lawyers in BC is a core responsibility of the Law Society. Quality of service and procedural fairness are key steps to our success in carrying out that responsibility. Our Professional Conduct and Discipline staff strive to ensure that both complainants and lawyers experience quality service and fairness throughout our regulatory process.

Complaints Reduction Staff Group

In 2007 the Law Society formed an interdepartmental staff group to look for new and creative ways to respond to the full range of complaints received about BC lawyers. About 90 per cent of the complaints handled by Professional Regulation every year raise communication and service issues; the balance involve more serious matters of professional misconduct. Two of the projects started by Complaints Reduction Staff Group during the past year were the Summary Hearing Process and the Communications Toolkit Training Program.





COMPLAINTS BY AREA OF LAW IN 2007

Summary Hearing Process

The Benchers approved a Complaints Reduction Staff Group proposal for a summary hearing process to deal with the following failures: to respond to Law Society inquiries, to comply with conditions of practice, to bring accounting records into accordance with the Law Society Rules when requested to do so, and to comply with an audit order.

The summary hearing process will permit the Discipline Committee Chair, or the Discipline Committee as a whole, to refer these complaints to a single-Bencher panel, which may — in a single hearing and decision — consider the facts (by affidavit or agreed statement of facts, unless the panel rules otherwise), reach a verdict,

order a penalty and award costs. If part-way through a summary hearing it becomes evident that a full hearing is required, the single-Bencher panel may recommend to the president that the matter proceed as a full hearing.

To be deployed during 2008, this summary hearing process reflects the importance the Law Society attaches to resolving "failure to respond" and "failure to comply" complaints in a manner that is timely, effective and fair.

REGULATORY PROGRAMS AND SERVICE DEPARTMENTS

Communications Toolkit Training Program

The Communications Toolkit Training Program is directed at improving lawyers' communication skills and practices, and thereby reducing service-related complaints. "Many professional conduct complaints are really more about failures to communicate promptly and effectively than about practice and discipline issues *per se*," explains Maureen Boyd, Senior Discipline Counsel and member of the Complaints Reduction Staff Group.

The group is preparing various materials for release by the end of 2008, including a complaint-prevention brochure (to be sent to members upon the closing of complaint files that involve communication issues), and online tutorial and precedent materials.

Complainants' Review Committee

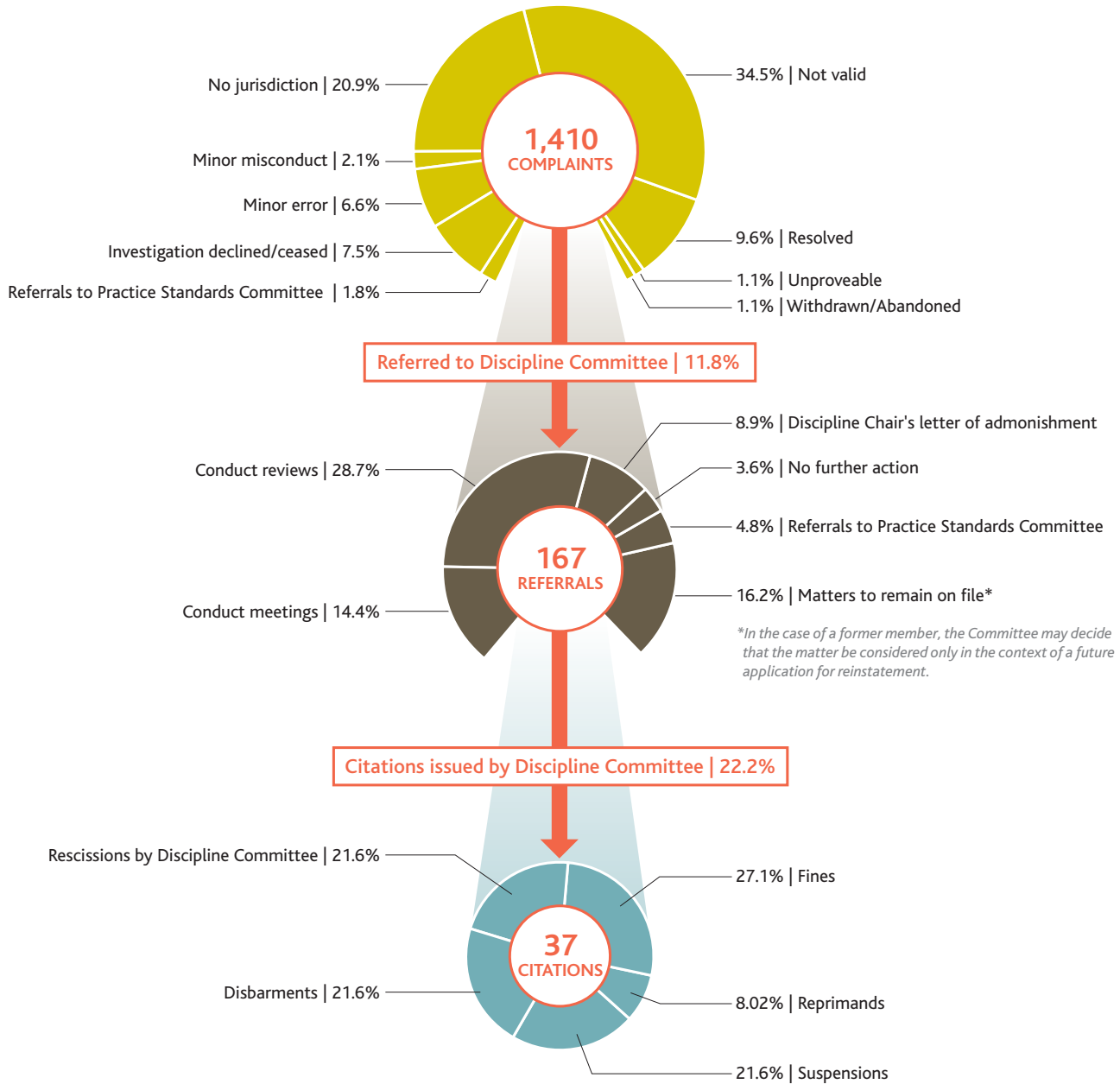
A complainant who is dissatisfied with a Law Society staff decision to close a complaint under Law Society Rule 3-6 following its investigation may ask the Complainants' Review Committee to review that decision. Under the chairmanship of Lay Benchers Dr. Maellor Vallance, the CRC reviewed 95 complaint files in 2007: agreeing with the staff disposition in 90 cases, sending four others to the Discipline Committee for further consideration, and requesting more information from staff in one other case.

Regulatory Information Online

The Law Society publishes a great deal of its regulatory information online. Visit lawsociety.bc.ca for:

- The *Legal Profession Act*, the Law Society Rules and the Professional Conduct Handbook.
- Discipline and Credentials hearing schedule and hearing reports and admissions
- Discipline news releases and summaries, Special Compensation Fund Committee decision summaries, and Unauthorized Practice undertakings and injunctions.

DISPOSITION OF 2007 COMPLAINT FILES



DISPOSITION OF CITATIONS

Please note that while this graph attempts to demonstrate proportion, it is not to scale.

REGULATORY PROGRAMS AND SERVICE DEPARTMENTS

Custodianships

WHEN A LAWYER IS UNABLE TO CONTINUE PRACTISING AND HAS NOT MADE ARRANGEMENTS FOR CONTINUING HIS OR HER PRACTICE, THE LAW SOCIETY WILL TAKE STEPS TO PROTECT CLIENT AND PUBLIC INTERESTS.

Section 50 of the *Legal Profession Act* authorizes the Law Society to apply to the BC Supreme Court to appoint a custodian of a lawyer's practice when she or he is unable to continue practising for reasons such as illness, death, suspension or disbarment and has not made arrangements for his or her clients.

Under the in-house custodian program launched in 2006, Law Society staff lawyers are to serve as custodians in almost all custodianship files, improving efficiency and reducing costs by utilizing the Society's internal expertise and resources, including paralegals and administrative support.

In 2007, Law Society staff lawyers performed most of the counsel work previously done by outside counsel, including all court applications for the appointment of custodians and 15 of the 19 discharge applications. The number of existing custodianships in which outside counsel were retained decreased by 40 per cent in 2007.

Also in 2007, the *Legal Profession Act* was amended to provide for the Law Society's appointment as a custodian, permitting transfer of custodianship files among staff lawyers without further court orders, and thereby improving efficiency and reducing cost in the use of staff resources.



Lead Custodial Clerk Jerry Negraeff reorganizes a Custodianship storage room.



Special Fund & Custodianships Assistant Stephanie Komick organizes a custodianship file.

The Law Society is increasing the use of locums to manage or terminate the practice of another lawyer, which keeps the number of death or illness-related custodianships to a minimum. There were 12 such locum appointments in 2007, two of which ultimately required custodianship orders.

The long-term goal of the Society's in-house custodianship program is to provide cost-effective custodianships through standardized and centralized administration, enhanced use of internal staff and resources, and reduced use and improved management of outside lawyers.

Trust Assurance

THE TRUST ASSURANCE DEPARTMENT SAFEGUARDS LAWYERS' HANDLING OF TRUST FUNDS, PROVIDING TRUST ACCOUNTING ADVICE TO LAW FIRMS, REVIEWING THEIR TRUST ACCOUNTING PRACTICES, AND CONDUCTING COMPLIANCE AUDITS TO ENSURE THOSE PRACTICES CONFORM TO THE SOCIETY'S TRUST ACCOUNTING RULES.

Launched in 2006, the Trust Assurance Program introduced a number of improvements to the way the Law Society performs its trust review responsibilities. Among the biggest changes is more extensive annual "self reporting" for most lawyers and the launch of an in-field compliance audit program. For many years the Law Society monitored trust compliance by requiring every law firm to file an annual trust report with an accompanying accountant's report. This shift in the program has resulted in financial savings to those firms relieved of the obligation to file an accountant's report.

The Trust Assurance Program deploys a team of trained trust assurance auditors to review the trust reports from over 3,000 law firms and to assess each firm's adherence to the relevant Law Society Rules. Firms may be chosen for compliance audits in a number of ways, including previous low compliance, referrals from other Law Society departments and as part of the six-year cycle of compliance audits for all BC law firms required to file annual trust reports.

Firms that have a history of low compliance with the trust accounting rules may be required to file an accountant's report with their annual trust report. Also, some lawyers will still need to file an accountant's report under the new program for other reasons: if they have not filed accountant's reports for the two years immediately preceding the current reporting year, or if they have terminated their practices during the year.

Following each compliance audit, lawyers are invited to respond to a survey and to provide comments on their audit experience:

"It was affirming to hear that we are doing okay. Suggestions made for improvement have been incorporated."

"The Law Society's trust assurance program is a good initiative to ensure law practices are operating in conformity with Law Society Rules and government taxation programs like GST & PST."

The Trust Assurance Department has designed a number of new resources to assist members of the profession with trust reporting, including a new law firm guide, a bookkeepers' handbook and sample checklists. In addition, there is an information line and e-mail service where members can communicate directly with a trust assurance auditor to have their questions answered.

The long-term goal of the the Trust Assurance Program is a reduction in the need for financial suspensions and the number of referrals to Professional Conduct, along with improved performance on key compliance questions in trust report filings.



67%

STRONGLY AGREE

33%

AGREE

"THE RECOMMENDATIONS PROVIDED IN
THE AUDIT REPORT AND BY THE AUDITOR
WERE CONSTRUCTIVE AND USEFUL."

RESPONSES TO SURVEY OF LAWYERS
AUDITED IN 2007

Senior Trust Assurance Auditor Felicia Ciolfitto (right) meets with Senior Trust Assurance Coordinator Dominique Fry.
In March 2008 Felicia Ciolfitto was appointed Manager, Trust Assurance.

REGULATORY PROGRAMS AND SERVICE DEPARTMENTS

Admissions

THROUGH ITS ADMISSIONS PROGRAM, THE LAW SOCIETY ENSURES NEW LAWYERS ARE OF GOOD CHARACTER AND ARE PROPERLY QUALIFIED BEFORE THEY ARE LICENSED TO PRACTISE LAW IN BC.

The Admissions Program includes the Credentials Department, which reviews applications for membership (under the direction of the Credentials Committee), the articling program for law school graduates, and the Professional Legal Training Course, which articulated students must complete before being called to the Bar and licensed to practise law in BC.

In 2007 355 new lawyers were admitted as members of the Law Society of BC, up from 330 in 2006.

For information on the conditions under which qualified lawyers may transfer to BC from other Canadian provinces, or seek to be called in BC from foreign countries, see: lawsociety.bc.ca under Licensing and Membership/Becoming a BC Lawyer/Transfers.

Articling Registry Pilot Project

In 2007 the foundation was laid for the creation of an on-line registry to support the matching of applicants with available articling positions, whether full or partial term.

The creation of the registry was a key recommendation of the Small Firm Task Force, approved by the Benchers in January 2007. The task force noted that even as law school graduates report difficulties and delays in finding articling positions, sole practitioners and small firms (particularly outside the Lower Mainland and Greater Victoria regions), report difficulty in recruiting students for articles.

Expected to launch in mid-2008 as a pilot project, the articling registry will be hosted on the website of the Canadian Bar Association (BC Branch) and linked to lawsociety.bc.ca. The registry will be accessible to all law students and lawyers — whether Canadian or foreign — who apply for a password, permitting them to post and update their resumes, and monitor articling placement postings.

LIFE IN THE HELPING PROFESSION

At a 2007 call and admission ceremony, Madam Justice Lynn Smith offered these words of encouragement about life in the helping profession:

"You can assist people who become your clients, sometimes at the most difficult point in their lives. You can help people avoid reaching those difficult times. You can assist in dispute resolution in ways that minimize harm, and even assist in building legal principles that will serve this province and the country well. No doubt you can add to that list yourselves. Congratulations, and I wish every one of you the very best in your legal careers, and in whatever you do."



491
NEW BC LAWYERS
IN 2007

221

Recent graduates of
BC law schools

111

Recent graduates of
other Canadian law schools

23

Recent graduates of
foreign law schools

108

Lawyers transferring to
BC from other jurisdictions

28

Former BC lawyers
reinstating as
Law Society members

Law Society President Anna Fung, QC and Member Services Representative Erin Merschenz congratulate a new BC lawyer.

REGULATORY PROGRAMS AND SERVICE DEPARTMENTS

Professional Legal Training Course

PLTC SEEKS TO DEVELOP AND ENHANCE STUDENTS' LAWYERING SKILLS BY INCREASING THEIR KNOWLEDGE OF PRACTICE AND PROCEDURE, AND BY ENHANCING THEIR ABILITY TO RECOGNIZE AND DEAL WITH ETHICAL AND PRACTICE MANAGEMENT ISSUES.

While law school teaches students how to spot issues, PLTC teaches students how to resolve them. PLTC students work through files and transactions that replicate as closely as possible what they will face in practice. The course is designed and taught by experienced legal staff with the assistance of numerous volunteer practitioners.

Held three times a year in Vancouver and once each summer in Victoria, the course is taught by a faculty of four Law Society staff lawyers and four practising lawyers, supported by an in-house legal and administrative team, and more than 300 volunteer instructors from the practising bar.

PLTC's priorities and curriculum are set by the Law Society's Benchers, who consider the areas of competence required by the Society's Credentials Committee, along with the call and admission requirements of other Canadian jurisdictions.

Upon completion of the 10-week PLTC program, students write the Law Society's qualification examinations, which presently cover the following subject areas: Civil Litigation, Estates, Family, Real Estate, Commercial, Company, Creditors Remedies, Criminal Procedure, Professional Responsibility and Law Office Management.

311
Registration
for 2004

337
Registration
for 2005

354
Registration
for 2006

366
REGISTRATION
FOR 2007

384
Projected
registration
for 2008



First Vice-President John Hunter, QC addresses an opening day session of PLTC.

REGULATORY PROGRAMS AND SERVICE DEPARTMENTS

Practice Standards

THE PRACTICE STANDARDS PROGRAM ASSISTS LAWYERS BY PROVIDING EDUCATIONAL RESOURCES AND OFFICE MANAGEMENT SUPPORT. IN ADMINISTERING THIS PROGRAM, THE PRACTICE STANDARDS DEPARTMENT ALSO CONDUCTS PRACTICE REVIEWS OF LAWYERS WHOSE COMPETENCE IS IN QUESTION, AND RECOMMENDS AND MONITORS REMEDIAL PROGRAMS.

The Law Society Rules require the Practice Standards Committee to consider — and investigate as it considers necessary — any complaint referred to it. The Committee must then do one or more of the following: decide that no further action be taken; make recommendations to improve the lawyer's practice; require the lawyer to meet with a committee-designated lawyer or Benchers to discuss the complaint; order a practice review (upon finding reasonable grounds to believe the lawyer is practising law in an incompetent manner); or refer the complaint to the Discipline Committee.

Update on the Continuing Professional Development Program and the Refresher Course

The past year saw good progress in the development of two Law Society programs — both approved by the Benchers in 2006 — to support BC lawyers in their efforts to keep their professional skills current.

Research and consultation was conducted through 2007 on a Continuing Professional Development program, calling for all practising BC lawyers to complete not fewer than 12 hours per year of a wide range of approved professional development activities. The Lawyer Education Advisory Committee will present its final report to the Benchers on the CPD program in July 2008, with the program expected to start January 1, 2009.

Work also continued through the year on a refresher course to assist non-practising and former lawyers who wish to return to active practice. The Refresher Course was approved by the Benchers in 2006 as part of a package of recommendations and Rule changes proposed by the Law Society's Credentials Committee, and is scheduled for launch during 2008.

PRACTICE STANDARDS COMMITTEE REFERRAL FILE ACTIVITY	2003	2004	2005	2006	2007
Files opened	24	14	31	28	24
Files closed	21	19	15	19	21
Files active	93	75	58	44	58

FILE ACTIVITY	2003	2004	2005	2006	2007
Initial practice reviews ordered or carried out	13	7	15	13	11
Follow-up practice review reports completed or in progress	16	10	10	8	18
File-side chats ordered or carried out	5	4	6	6	7
Referred to Discipline Committee				1	1
Progress Reports/Action Plans ordered	8	19	15	8	12
Letter from Chair					1
Lawyers required to be under supervision	15 new	4 new	9 new	3 new	3 new
Lawyers in program with practice restrictions	36	31	2 new	4 new	3 new
Costs ordered	\$63,000	\$22,500	\$39,500	\$49,500	\$67,500



THE PRACTICE ADVICE DEPARTMENT: (SEATED) *Practice Advisor Barbara Buchanan, Practice Management Advisor David Bilinsky*; (STANDING) *Ethics Staff Lawyer Jack Olsen*.

Practice Advice

THE PRACTICE ADVICE DEPARTMENT HELPS LAWYERS SERVE THE PUBLIC BETTER BY PROVIDING ADVICE AND ASSISTANCE TO THE PROFESSION ON ETHICS, PRACTICE AND OFFICE MANAGEMENT ISSUES.

Professional excellence requires professional support, which is the focus and purpose of the various practice support resources the Law Society makes available to BC lawyers (see: lawsociety.bc.ca under "Practice Support"). The provision of confidential advice by the Practice Advice Department accounted for 98 per cent of the 5,575 practice advice-related enquiries received by the Law Society in 2007. Even more lawyers took advantage of the society's online practice resources last year, performing over 78,000 downloads of web pages on practice issues, more than 43,000 downloads of articles, precedents and other materials, and almost 44,000 downloads of practice checklists.

In addition to his daily work of responding to BC lawyers' ethics questions, in 2007 Staff Lawyer Jack Olsen provided support to the Ethics Committee, represented the Law Society on the Federation of

Law Societies of Canada's Model Code of Professional Conduct Committee, and led a staff team in preparing the *Annotated Professional Conduct Handbook* (to be available on the Law Society's website in late 2008).

Practice Advisor Barbara Buchanan and Practice Management Advisor David Bilinsky both write feature columns in the *Benchers' Bulletin* (*Practice Watch* and *Practice Tips*, respectively), providing information updates and practice advice to the profession. As well, both speak and write regularly on professional and practice management topics to audiences outside the Law Society.

REGULATORY PROGRAMS AND SERVICE DEPARTMENTS

Policy and Legal Services

THE POLICY AND LEGAL SERVICES DEPARTMENT ASSISTS THE LAW SOCIETY WITH POLICY DEVELOPMENT, LEGAL RESEARCH AND LEGISLATIVE DRAFTING, AND MONITORING DEVELOPMENTS INVOLVING PROFESSIONAL REGULATION, INDEPENDENCE OF THE BAR AND JUDICIARY, ACCESS TO JUSTICE, AND EQUITY AND DIVERSITY IN THE LEGAL PROFESSION.

Two Policy and Legal Services areas of responsibility were of particular note in 2007: conducting research and analysis to support the development of a new Benchers governance model based on a knowledge-based approach to strategic planning and priorities; and providing direction and oversight for litigation involving the Law Society.

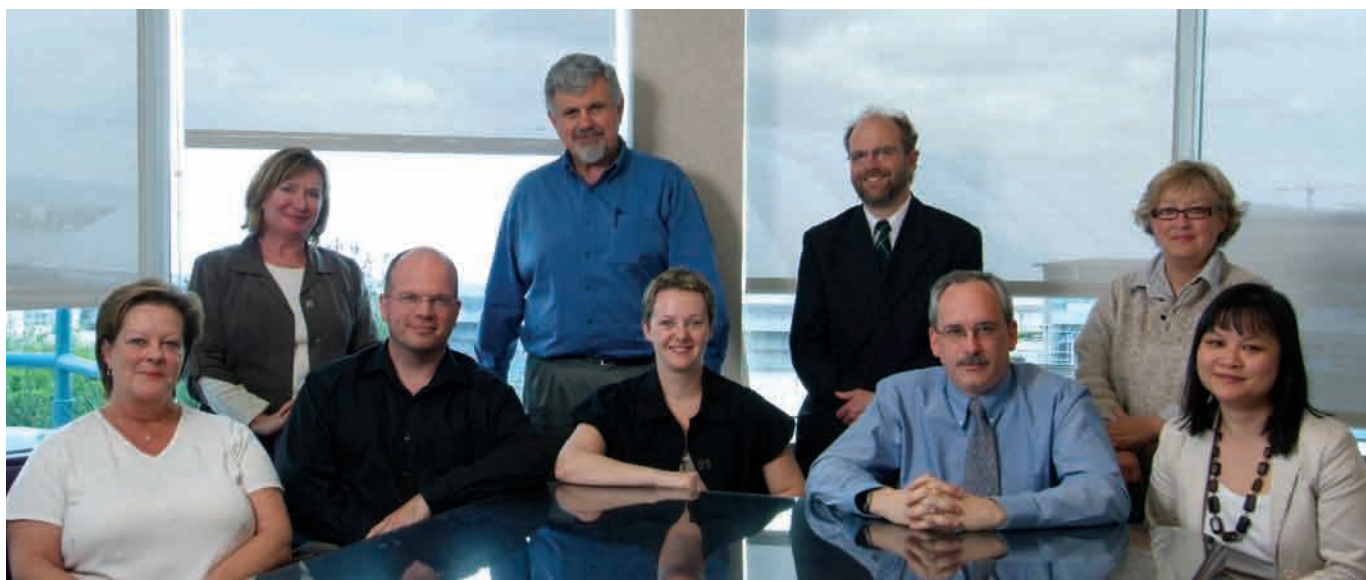
Through the second half of 2007, the department assisted a steering committee charged with investigating options for improving Benchers governance and priority-setting. In November, the Benchers approved the Strategic Planning and Governance Steering Committee's recommendations for establishing strategic policy priorities and ensuring that Benchers decision-making is both focused on and guided by those priorities.

Every year sees the Law Society involved in a number of proceedings before courts or tribunals, both directly as a named party, and indirectly as an intervener in matters raising important policy issues.

Of the five actions in which the Law Society intervened in 2007, two involved proceedings before the Supreme Court of Canada. In *Christie v. The Attorney General of BC*, the Law Society asked the country's highest court to uphold the BC Court of Appeal's decision

that provincial sales tax (PST) on legal services is unconstitutional to the extent that it purports to tax legal services provided in relation to the determination of rights and obligations by courts and tribunals. Overturning the Court of Appeal, the Supreme Court ruled that lawyers are required to collect and remit PST for legal services in accordance with the *Social Services Tax Act*.

The Law Society's intervention in *Re: Named Person v. Vancouver Sun et al.* sought to ensure that the legal principles underlying a lawyer's fiduciary and solicitor-client duties to his or her client were protected and applied in an appeal of a confidentiality order granted in an extradition proceeding. The Supreme Court set aside the extradition judge's order, which had required counsel for a number of media groups to attend a hearing upon filing undertakings of confidentiality and undertakings not to disclose anything learned at the hearing to their clients. Mr. Justice LeBel wrote (concurring with the majority in the result, dissenting in part): "I agree with the intervener the Law Society of British Columbia that such a solution must remain one of last resort. Counsel's right to disclose evidence to his or her client must not therefore be limited unless this is the only conceivable solution."



THE POLICY AND LEGAL SERVICES DEPARTMENT: LEFT TO RIGHT (seated) Michelle Robertson, Hearing Administrator; Doug Munro, Staff Lawyer; Colette Sauvage, Paralegal; David Newell, Staff Lawyer and Corporate Secretary; Susanna Tam, Equity and Diversity Coordinator.

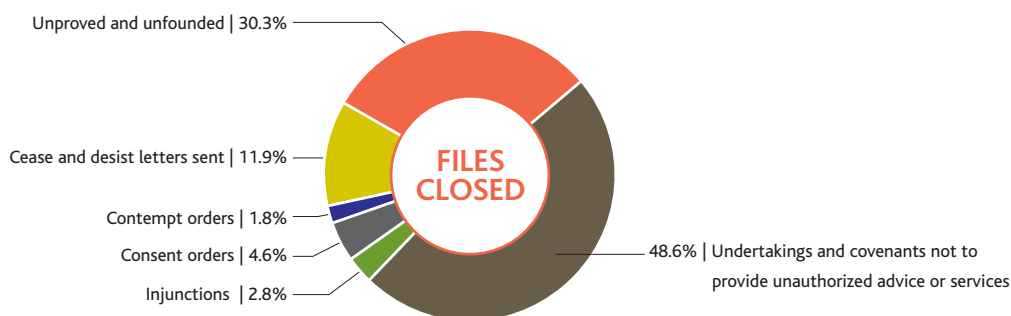
LEFT TO RIGHT (standing) Carmel Wiseman, Unauthorized Practice Counsel; Jeffrey Hoskins, Director of Policy and Legal Services/General Counsel; Michael Lucas, Staff Lawyer and Administrator; Ingrid Reynolds, Assistant.

Not pictured: Anna Lin, Assistant; Charlotte Ensminger, Staff Lawyer (on leave); Jackie Drozdowski, Information & Privacy Officer; Rebecca Garcia, Assistant.

Unauthorized Practice

The Law Society protects the BC public from people who are unqualified to provide legal services by investigating and — if necessary — bringing proceedings under Sections 15 and 85 of the *Legal Profession Act*. Last year the Society opened 113 and closed 109 unauthorized practice files; and handled another 268 inquiries

by providing summary consultation and advice in unauthorized practice matters that did not require a formal file. Only one court order prohibiting unauthorized practice was appealed in 2007; the Law Society succeeded on the appeal.



DISPOSITION OF UNAUTHORIZED PRACTICE FILES CLOSED IN 2007

REGULATORY PROGRAMS AND SERVICE DEPARTMENTS

The Lawyers Insurance Fund

THE LAWYERS INSURANCE FUND (LIF) PROVIDES LIABILITY INSURANCE TO PROTECT LAWYERS AND TO ENSURE CLIENTS RECEIVE THE COMPENSATION TO WHICH THEY ARE ENTITLED. LIF ALSO PROVIDES TRUST PROTECTION COVERAGE TO ENSURE INNOCENT MEMBERS OF THE PUBLIC DO NOT SUFFER A FINANCIAL LOSS THROUGH THEFT BY A BC LAWYER. BOTH TYPES OF INSURANCE ARE MANDATORY FOR LAWYERS IN PRIVATE PRACTICE.

In 2007, early reporting of potential claims allowed the successful repair of 17 per cent of files, the highest annual rate of file repair in the history of the program.

Timely reporting is essential to ensuring early and cost-effective settlement of meritorious claims, marshalling of evidence in defensible cases and accurate claims reserving. It also allows LIF's claims counsel to take steps to restore the position of the lawyer's client so that the client does not suffer any financial loss or loss of legal rights.

To ensure prompt, candid and complete reporting of potential claims, all information provided to LIF is kept confidential from other Law Society departments, except for evidence of dishonest appropriation, fraud or criminal activity. This confidentiality policy is key to the success of the Lawyers Insurance Fund.

Trust protection coverage was introduced in 2004; in 2007, seven claims totaling approximately \$39,000 were paid on behalf of four lawyers. None of the lawyers involved remains a member of the Law Society and all are obliged to repay amounts paid on their behalf.

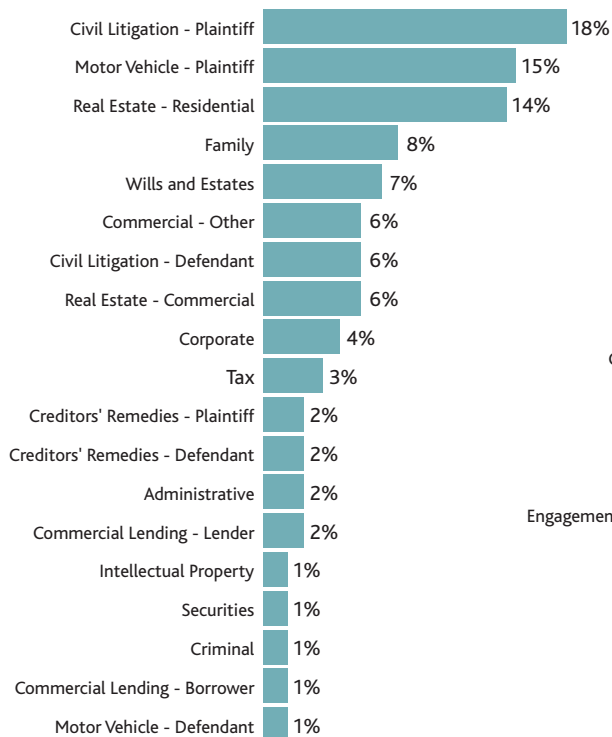
Service quality

When files are closed, LIF seeks service quality feedback from lawyers. In 2007, 96 per cent of respondents rated the overall quality of service and the outcome of their claims at 4 or 5 on a 5-point scale. Ninety-seven per cent gave the same rating to the service provided by LIF's defence counsel.

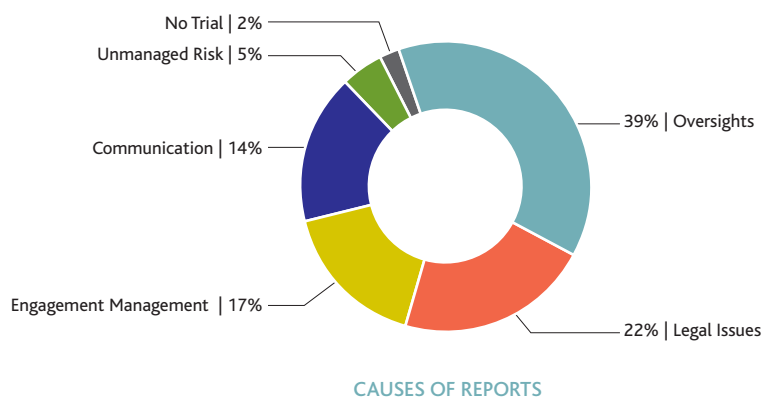
When asked "What did you most appreciate about the service provided," the responses included :

"Claims counsel was great. The advice given was reassuring and useful, and it helps to know that there are such competent people backing us up when we may have fallen into error."

"Highly professional, helpful and practical. Claims counsel was non-judgmental, compassionate, and genuine in his concern. Full marks!"



REPORTS BY AREA OF LAW IN 2007



CAUSES OF REPORTS

Proactive risk management

2007 saw the introduction of two new risk management initiatives from the Lawyers Insurance Fund. *Beat the clock: Timely lessons from 1600 lawyers* — a 58-page book containing more than 70 risk management tips, as well as a "Limitations and Deadlines Quick Reference List" — was distributed to all insured lawyers in the province. LIF has also partnered with the Continuing Legal Education Society of BC to identify courses for which LIF has relevant claims or risk management information.

While it is too early to see results from these programs, it is expected that they will contribute to the successful risk management endeavours of practising lawyers.

Proactive claims management

Creative solutions to complex problems are one of the hallmarks of the program. Here is just one example:

A lawyer acted for the purchaser of some land, but failed to obtain road access from the adjoining owners. The lawyer was clearly liable and, without access, the property was virtually worthless. When the problem could not be rectified, LIF bought the claimant's property as well as the adjoining lot which provided the road access. The claimant was happy to be rid of the lot and ultimately LIF was able to sell both properties.

OUR PEOPLE



FRONT (LEFT TO RIGHT): Susan Forbes, QC, Director, Lawyers Insurance Fund; Timothy E. McGee, Chief Executive Officer and Executive Director; Howard Kushner, Chief Legal Officer.

BACK (LEFT TO RIGHT): Alan Treleaven, Director, Education and Practice; Adam Whitcombe, Chief Information Officer; Jeffrey Hoskins, Director, Policy and Legal Services/General Counsel; Jeanette McPhee, Chief Financial Officer; Stuart Cameron, Director, Professional Regulation.

2007 Management Board

Timothy E. McGee
Chief Executive Officer and Executive Director

Stuart Cameron
Director, Professional Regulation

Susan Forbes, QC
Director, Lawyers Insurance Fund

Jeffrey Hoskins
Director, Policy and Legal Services / General Counsel

Howard Kushner
Chief Legal Officer

Jeanette McPhee
Chief Financial Officer

Alan Treleaven
Director, Education and Practice

Adam Whitcombe
Chief Information Officer

2007 Committees and Task Forces

Law Society committees carry out many regulatory functions under the *Legal Profession Act* and Law Society Rules and assist with policy development in those areas, while a number of task forces work on special projects for the Benchers. The Law Society benefits greatly from the dedicated service provided by the Benchers, and other volunteers recognized below.

Committees

Executive

Benchers: Anna Fung, QC (Chair), John Hunter, QC (Vice-Chair), Ian Donaldson, QC, Patrick Kelly, Glen Ridgway, QC, Gordon Turriff, QC, Arthur Vertlieb, QC

Access to Justice

Benchers: Terence La Liberté, QC (Chair), Carol Hickman (Vice-Chair), Barbara Levesque, June Preston, MSW, Robert Punnett, Gerald Lecovin, QC (Life Bencher), Ronald Toews, QC (Life Bencher), Russell Tretiak, QC (Life Bencher)

Non-Benchers: Dr. Carol Matusicky, David Mossop, QC



2007 Law Society President Anna K. Fung, QC with Second Vice-President Gordon Turriff, QC (left) and First Vice-President John J.L. Hunter, QC, after the December 2007 call ceremony at the Vancouver Law Courts.

Audit

Benchers: David Zacks, QC (Chair), Bruce LeRose, QC (Vice-Chair), Kathryn Berge, QC, Gavin Hume, QC

Non-Benchers: Paul Albi, Deborah Armour, Ted Strocel

Complainants' Review

Benchers: Dr. Maelor Vallance (Chair), Ken Dobell (Vice-Chair), Thelma O'Grady, Ronald Tindale, Kenneth Walker

Non-Benchers: Peter Gorgopa

Credentials

Benchers: Glen Ridgway, QC (Chair), Richard Stewart, QC (Vice-Chair), Kathryn Berge, QC, Carol Hickman, Bruce LeRose, QC, Barbara Levesque, Thelma O'Grady, Ronald Tindale, Arthur Vertlieb, QC, Robert McDiarmid, QC (Life Bencher)

Non-Benchers: Myron Claridge, John Leathley, QC

Discipline

Benchers: Ian Donaldson, QC (Chair), Rita Andreone (Vice-Chair), Ken Dobell, Gavin Hume, QC, Terence La Liberté, QC, Jan Lindsay, Dr. Maelor Vallance, Jane Shackell, QC (Life Bencher)

Non-Benchers: Dan Bennett, Jo Ann Carmichael, QC, Jennifer Duncan, Peter Voith, QC

Equity and Diversity

Benchers: Arthur Vertlieb, QC (Chair), Patrick Kelly (Vice-Chair), Michael Falkins, Jan Lindsay, Thelma O'Grady

Non-Benchers: Aleem Bharmal, Halldor Bjarnason, Robert Brun, QC, Brenda Edwards, Lisa Fong, Najeeb Hassan, Elizabeth Hunt, Lila Quastel, Lee Schmidt, Baldwin Wong

Ethics

Benchers: John Hunter, QC, (Chair), Joost Blom, QC (Vice-Chair), Leon Getz, QC, Patrick Kelly, Gordon Turriff, QC, James Vilvang, QC, Kenneth Walker, William Sullivan, QC (Life Bencher)

Non-Benchers: Patricia Bond, Christine Elliott, Peter Ramsay, QC, Stephen Richards, Anne Stewart, QC

Futures

Benchers: Gordon Turriff, QC (Chair), John Hunter, QC (Vice-Chair), Joost Blom, QC, Anna Fung, QC, June Preston, MSW

Non-Benchers: Craig Dennis, Stan Lanyon, QC, Sharon Matthews, Geoff Plant, QC

Independence and Self-Governance

Benchers: Gordon Turriff, QC (Chair), James Vilvang, QC (Vice-Chair), Rita Andreone, Patrick Kelly, Jan Lindsay, Glen Ridgway, QC, Jane Shackell, QC (Life Bencher)

Non-Benchers: John Baigent, Prof. Hamar Foster, J. Cameron Mowatt, Leslie Muir

OUR PEOPLE

Committees *(continued)*

Legal Information and Technology

Benchers: Dirk Sigalet, QC (Chair), Catherine Best (Vice-Chair), Leon Getz, QC, Patricia Schmit, QC (Life Bencher)

Non-Benchers: Johanne Blenkin, Neil Campbell, Mary Mitchell, Thomas Spraggs, Jr.

Practice Standards

Benchers: David Zacks, QC (Chair), Dirk Sigalet, QC (Vice-Chair), Michael Falkins, William Jackson, June Preston, MSW, Robert Punnett, David Renwick, QC, Gerald Kambeitz, QC (Life Bencher), Ross Tunnicliffe (Life Bencher)

Non-Benchers: Jeffrey Hayes, Charlotte Morganti, Mark Skwarok

Regulatory Policy Committee

Benchers: Gavin Hume, QC (Chair), Rita Andreone (Vice-Chair), Kathryn Berge, QC, Ian Donaldson, QC, Anna Fung, QC, John Hunter, QC, William Jackson, Patrick Kelly, Glen Ridgway, QC, Gordon Turriff, QC, Arthur Vertlieb, QC, David Zacks, QC, Robert McDiarmid, QC (Life Bencher)

Special Compensation Fund

Benchers: David Renwick, QC (Chair), Michael Falkins (Vice-Chair), Richard Stewart, QC (Vice-Chair), Patrick Kelly, Bruce LeRose, QC, Patricia Schmit, QC (Life Bencher)

Non-Benchers: Azim Datoo, QC, Peter Ramsay, QC

Unauthorized Practice

Benchers: William Jackson (Chair), Ronald Tindale (Vice-Chair), Barbara Levesque

Non-Benchers: Fred Hansford, QC, James Herperger, Ken Kramer, Joseph Zak

2007 Task Forces

Alternative Dispute Resolution

Benchers: Ralston Alexander, QC (Chair, Life Bencher), John Hunter, QC

Non-Benchers: Stan Lanyon, QC, Jerry McHale, QC

Conveyancing Practices

Benchers: David Zacks, QC (Chair), QC, Ralston Alexander, QC (Life Bencher), Gerald Kambeitz, QC (Life Bencher)

Non-Benchers: Paul Bradley, Kenneth Jacques, Andrew Kern, Franco Trasolini

Family Law

Benchers: Carol Hickman (Chair), Kathryn Berge, QC, Robert Punnett, Richard Stewart, QC, Gordon Turriff, QC, Dr. Maelor Vallance

Lawyer Education

Benchers: Bruce LeRose, QC (Chair), Gordon Turriff, QC (Vice-Chair), Patricia Schmit, QC (Life Bencher), Leon Getz, QC, Thelma O'Grady, Robert Punnett, Dirk Sigalet, QC, Dr. Maelor Vallance

Non-Benchers: Mary Childs, Susan Sangha

Paralegal

Benchers: Brian Wallace, QC (Chair, Life Bencher), Ralston Alexander, QC (Life Bencher), William Sullivan, QC (Life Bencher)

Non-Bencher: Jaynie Clark

Title Insurance Issues

Benchers: Ralston Alexander, QC (Chair, Life Bencher), Leon Getz, QC, Warren Wilson, QC (Life Bencher)

Non-Benchers: Neil Kornfeld, QC, Charlene Loui-Ying, Albert McClean, QC, Ian Smith

Unbundling Legal Services

Benchers: Carol Hickman (Chair), Kathryn Berge, QC, Marjorie Martin (Life Bencher), Patricia Schmit, QC (Life Bencher)

Non-Benchers: Mark Benton, QC, Douglas Harrison, David Mossop, QC, Judy Williams

Women in the Legal Profession

Benchers: Gavin Hume, QC (Chair), Jan Lindsay, June Preston, MSW, Warren Wilson, QC (Life Bencher)

Non-Benchers: Jennifer Conkie, QC, Renee Miller, Margaret Ostrowski, QC

2007 Benchers

Elected Benchers

Anna K. Fung, QC
President

John J.L. Hunter, QC
First Vice-President

Gordon Turriff, QC
Second Vice-President

Rita C. Andreone
Kathryn A. Berge, QC
Joost Blom, QC
Ian Donaldson, QC
Leon Getz, QC
Carol W. Hickman
Gavin H.G. Hume, QC
William F.M. Jackson
Terence E. La Liberté, QC
Bruce A. LeRose, QC
Jan Lindsay
Thelma O'Grady
Robert D. Punnett
David M. Renwick, QC
G. Glen Ridgway, QC
Dirk J. Sigalet, QC
Richard N. Stewart, QC
Ronald S. Tindale
Arthur E. Vertlieb, QC
James D. Vilvang, QC
Kenneth M. Walker
David A. Zacks, QC

Lay Benchers

Ken Dobell
Michael Falkins
Patrick Kelly
Barbara Levesque
June Preston, MSW
Dr. Maelor Vallance

Life Benchers*

Arthur M. Harper, QC (1959-1969)
The Honourable Charles C. Locke, QC (1961-1973)
The Honourable A. Brian B. Carrothers, QC (1963-1973)
The Honourable Kenneth E. Meredith (1964-1973)
Darrell T.B. Braidwood, QC (1965-1975)
The Honourable Peter J. Millward, QC (1965-1975)
The Honourable Hugh P. Legg, QC (1969-1976)
The Honourable Mary F. Southin, QC (1971-1980)
Norman Severide, QC (1975-1981)
H. Allan Hope, QC (1974-1982)
Brian W.F. McLoughlin, QC (1974-1984)
The Honourable Thomas R. Braidwood, QC (1973-1975; 1979-1985)
The Honourable Jack L.T. Edwards, QC (1978-1985)
The Honourable Dr. James J. Gow, QC (1979-1985)
The Honourable Mr. Justice Bruce I. Cohen (1978-1986)
Marvin R.V. Storrow, QC (1980-1987)
Dennis J. Mitchell, QC (1981-1988)
R. Paul Beckmann, QC (1980-1989)
Robert M. Dick, QC (1983-1991)
The Honourable Mr. Justice Peter Leask (1984-1992)
Brian J. Wallace, QC (1985-1993)
John M. Hogg, QC (1984-1993)
P. Michael Bolton, QC (1985-1993)
The Honourable Mr. Justice Robert T.C. Johnston (1986-1994)
The Honourable Mr. Justice Grant D. Burnyeat (1988-1995)
Donald A. Silversides, QC (1984-1995)
Gary L.F. Somers, QC (1986-1995)
James M. MacIntyre, QC (1986-1995)
Cecil O.D. Branson, QC (1988-1995)
Alan E. Vanderburgh, QC (1989-1995)
Karen F. Nordlinger, QC (1988-1996)
Benjamin B. Trevino, QC (1991-1997)
Richard C.C. Peck, QC (1988-1997)
Leonard T. Doust, QC (1990-1997)
William M. Trotter, QC (1990-1997)
Trudi L. Brown, QC (1992-1998)
Warren T. Wilson, QC (1991-1999)
The Honourable Ujjal Dosanjh, QC (1995-2000)
Karl F. Warner, QC (1994-2000)
Richard S. Margetts, QC (1995-2001)
Gerald J. Lecovin, QC (1994-2001)
Emily M. Reid, QC (1994-2001)
Jane S. Shackell, QC (1994-2001)
Ann Howard (1992-2002)
Marjorie Martin (1992-2002)
Richard C. Gibbs, QC (1996-2002)
Howard R. Berge, QC (1992-2003)
Russell S. Tretiak, QC (1992-2003)
Robert D. Diebolt, QC (1996-2003)
G. Ronald Toews, QC (1996-2003)
Gerald J. Kambeitz, QC (1996-2003)
William J. Sullivan, QC (1997-2003)

Master Peter J. Keighley (1996-2004)
William M. Everett, QC (1998-2004)
Ralston S. Alexander, QC (1999-2005)
Patricia L. Schmit, QC (1998-2005)
Ross D. Tunnicliffe (1998-1999; 2000-2005)
Robert W. McDiarmid, QC (1998-2006)
Anna K. Fung, QC (1998-2007)
Ian Donaldson, QC (2000-2007)

**The Law Society Rules provide that past-presidents and Benchers who complete four terms become Life Benchers. Life Benchers are entitled to attend and speak at Benchers meetings but are not eligible to vote. At the close of 2007, the Society's complement of Life Benchers stood at 60 (shown here in order of their years of Benchers service), including two newcomers: outgoing President Anna Fung, QC, and retiring Benchers Ian Donaldson, QC.*



New BC lawyers attending the Great Hall of the Vancouver Law Courts for their call and admission ceremony.

The Law Society of British Columbia

Management Discussion and Analysis

Financial Statements for the General Fund, Special Compensation Fund and Lawyers Insurance Fund

December 31, 2007



Management Discussion and Analysis

The Law Society of British Columbia accounts for its financial activities through three separate funds: the General Fund, the Special Compensation Fund and the Lawyers Insurance Fund. Law Society management has the responsibility to assist the Benchers in fulfilling the Society's mandate, while ensuring that operating expenditures are closely controlled and appropriate accounting and internal controls are maintained. The 2007 audited financial statements for the three funds are set out in this report. The statements are presented in accordance with the presentation and disclosure standards of the Canadian Institute of Chartered Accountants.

During 2007, in addition to the general oversight provided by the Benchers, the Financial Planning Sub-Committee, chaired by First Vice-President John Hunter, QC, and the Audit Committee, chaired by Bencher David Zacks, QC, both assisted the Benchers in ensuring that management and staff properly managed and reported on the financial affairs of the Society. The oversight by the Benchers, the Financial Planning Sub-Committee and the Audit Committee included:

- Reviewing periodic financial statements of the General, Special Compensation and Lawyers Insurance Funds
- Reviewing investment performance as managed by the appointed investment managers
- Reviewing with the Law Society's auditors their approach, scope and audit results
- Reviewing the annual Audit Committee Report prepared by the Law Society auditors
- Recommending the practice fees and assessments, and reviewing corresponding budgets

Accounting Standards Change – Financial Instruments

For 2007, the Canadian Institute of Chartered Accountants introduced a new accounting standard for reporting financial instruments. The Society has adopted this standard. As a result the Society's investment portfolios have been classified as available-for-sale, with changes in the fair market value of available-for-sale investments reported within the statement of changes in net assets until the financial asset is disposed of or becomes impaired.

General Fund

Results of Operations

Overall, the 2007 results for the General Fund were more favourable than expected. Revenues were greater than expected and the cost of operations was lower than expected, leading to an operating surplus of \$1.5 million during 2007.

Membership was greater than expected, with an average of 9,800 practising members during the year. In addition, there was a significant increase in electronic filing revenues from the Land Titles Office. Management improved handling of cash requirements, thereby reducing interest costs. There were savings within Bencher committees, unbudgeted staffing vacancies, and reduced communications and course development costs. In addition, a number of expected expenses were deferred until 2008, including the timing of trust assurance program costs, discipline case costs and staff professional development expenses.

Revenues

General Fund revenues from all sources increased from \$14.3 million in 2006 to \$16.8 million in 2007. Practice fee revenue increased from \$8.4 million in 2006 to \$10.8 million in 2007, mainly due to an increase in members and a practice fee increase during 2007. Electronic filing revenues increased to \$575,000 in 2007 from \$413,000 in 2006. In 2007, revenue from the trust administration fee (\$3.3 million) was unchanged from 2006.

During 2007, the Benchers resolved to fund custodianship expenses through the general practice fee, beginning January 1, 2008.

Expenses

General Fund expenses in 2007 were \$15.7 million, a \$360,000 (two per cent) increase over 2006. Most department expenses remained fairly stable during the year. The main area of change was in the Audit and Trust Assurance departments, with the implementation of the Trust Assurance Program.

Bencher Governance expenses remained fairly stable, with decreases in committee expenses and an increase in the Federation of Law Societies assessment. Communication and Information Services costs increased by \$300,000, mostly attributable to increased resources for application development, training and support and the reallocation of computer-related expenses from general administration. Overall, Education and Practice costs remained consistent year-over-year, with decreases in some departments offsetting increases in other departments. Practice Advice and Practice Standards resources were increased to enhance access to assistance and practice reviews for members. The Member Services increase was due to a reallocation of annual billing expenses from general administration. General Administration expenses decreased as costs were reallocated to other departments and programs to better reflect the actual cost of department and program activities. Policy and Legal Services costs decreased, due to a reduction of external counsel fees related to legal cases during the year, along with a reallocation of expenses to other areas, such as Regulation. Regulation expenses increased in the audit and trust assurance areas with the implementation of the new Trust Assurance Program during 2007. External counsel fees were a particular focus during 2007, with costs coming in lower than 2004 levels. The 845 Cambie Street building net results increased due to the renewal of leases and interest cost savings during the year.

Net Assets

As of December 31, 2007, \$6.5 million was invested in property, plant and equipment and working capital was in a deficit position of \$3.4 million, leaving net assets of \$3.1 million in the General Fund. The working capital position improved by \$2.8 million during 2007, due to a net contribution from operations of \$1.7 million and allocation of the \$1.1 million Trust Administration Fee surplus to Trust Administration Fee-related programs. Our year-end net asset balance of \$3.1 million comfortably exceeded the Benchers-prescribed minimum surplus.

Special Compensation Fund

Results of Operations

Overall, the Special Compensation Fund was able to fund claims payments and make a substantial reduction in the deficit in 2007.

Revenues

The Special Compensation Fund was funded through a \$500 assessment to each practising lawyer in 2007, resulting in total revenue of \$5 million. The assessment was used to pay claims, to cover the costs associated with the administration of the Special Compensation Fund, and to reduce the deficit.

Expenses

Due to the discretionary nature of the Special Compensation Fund, the Law Society does not set a claims reserve. All claim expenses are shown as an expense in the year incurred, net of any recoveries from the insurer or the lawyer against whom the claim is made. During the year, \$1.5 million in claims and administrative costs were paid.

Net Assets

The Special Compensation Fund deficit was \$7.7 million at December 31, 2007.

During 2007, the Special Compensation Fund Committee continued to deal with the claims arising from the activities of former member Martin Wirick. The commercial insurance policy that applied to the Wirick claims was exhausted during 2005. The claims paid in 2007 were funded by the Special Compensation Fund assessment and by funds borrowed from the Lawyers Insurance Fund.

Lawyers Insurance Fund

Results of Operations

The Lawyers Insurance Fund (LIF) provides liability insurance to protect lawyers if they are professionally negligent (Part A coverage). LIF also provides trust protection coverage to ensure innocent members of the public do not suffer a financial loss through theft by a BC lawyer (Part B coverage). Both types of insurance are mandatory.

Investment assets increased by \$19.6 million to \$130.1 million, inclusive of cash and cash equivalents. As mentioned previously, the adoption of the new accounting standard for financial instruments requires investments to be booked at fair market value on the balance sheet. This increased net assets by \$7.2 million during the year.

Revenues and Expenses

In 2007, LIF revenues were \$17.2 million, against net LIF expenses of \$19.6 million. The claims provision increased due to the addition of an amount for the 2007 claims and a reduction in the discount rate used for valuing claims provisions, which was offset by reductions in provisions for some prior claim years. The provision for claims on the balance sheet at the end of 2007 was \$62.1 million, compared to \$58.8 million in 2006. In addition, the unallocated loss adjustment expense (ULAE) provision is higher for 2007, mainly due to the reduction in the discount rate and an increase in average operating expenses over the last few years.

Net Assets

Net assets increased \$3.6 million at the end of 2007, with \$30.8 million of the net assets allocated for Part A claims, and \$17.5 million allocated for Part B claims.

The financial strength of the Lawyers Insurance Fund is reflected both in its strong reserve and in the fact that the Benchers were able to reduce the insurance fee from \$1,500 to \$1,400 in 2007, after holding at \$1,500 for the previous seven years.

The Law Society of British Columbia - General and Special Compensation Funds

Financial Statements

December 31, 2007

June 4, 2008

Auditors' Report

To the Members of

The Law Society of British Columbia

We have audited the statement of financial position of **The Law Society of British Columbia - General and Special Compensation Funds** as at December 31, 2007 and the statements of revenue and expense, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Funds as at December 31, 2007 and the results of its operations, the changes in its net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, BC

The Law Society of British Columbia - General and Special Compensation Funds

Financial Statements

December 31, 2007

Statement of Financial Position

As at December 31, 2007

			2007	2006
	General Fund \$	Special Compensation Fund \$	Total \$	Total \$
				(Restated - note 3)
Assets				
Current assets				
Cash and cash equivalents	51,893	575	52,468	968,224
Unclaimed trust funds	1,149,728	-	1,149,728	900,835
Accounts receivable and prepaid expenses	1,126,653	63,436	1,190,089	1,175,797
B.C. Courthouse Library Fund (note 2)	517,346	-	517,346	408,094
Due from Lawyers Insurance Fund (note 9)	12,868,170	2,279,469	15,147,639	8,337,963
Interfund balances (note 9)	8,246	(8,246)	-	-
	15,722,036	2,335,234	18,057,270	11,790,913
Property, plant and equipment				
Cambie Street property - net (note 4)	12,410,059	-	12,410,059	12,883,171
Other - net (note 4)	1,217,101	-	1,217,101	1,393,702
	29,349,196	2,335,234	31,684,430	26,067,786
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	3,989,906	1,118,743	5,108,649	4,972,842
Liability for unclaimed trust funds	1,149,728	-	1,149,728	900,835
Current portion of building loan payable (note 8)	500,000	-	500,000	500,000
Current portion of claims payable (note 10)	-	1,885,882	1,885,882	1,885,882
Deferred revenue	13,341,285	3,311,100	16,652,385	15,369,212
Deferred capital contributions (notes 2 and 5)	85,337	-	85,337	-
B.C. Courthouse Library Grant (note 2)	517,346	-	517,346	408,094
Deposits	35,500	-	35,500	28,870
	19,619,102	6,315,725	25,934,827	24,065,735
Building loan payable (notes 8 and 9)	6,600,000	-	6,600,000	7,100,000
Claims payable (note 10)	-	3,771,764	3,771,764	5,657,646
	26,219,102	10,087,489	36,306,591	36,823,381
Net assets				
Invested in property, plant and equipment - net	6,527,939	-	6,527,939	6,676,872
Unrestricted	(3,397,845)	(7,752,255)	(11,150,100)	(17,432,467)
	3,130,094	(7,752,255)	(4,622,161)	(10,755,595)
	29,349,196	2,335,234	31,684,430	26,067,786

Claims (note 10)

Approved by


President


Chair of Audit Committee

The Law Society of British Columbia - General and Special Compensation Funds

Financial Statements

December 31, 2007

Statement of Changes in Net Assets

For the year ended December 31, 2007

				2007		2006
	General Fund					
	Invested in property, plant and equipment \$	Unrestricted \$ (Note 6)	Total \$	Special Compensation Fund - Unrestricted \$	Total \$	Total \$ (Restated - note 3)
Net assets (deficit) - Beginning of year	6,676,872	(6,198,840)	478,032	(11,233,627)	(10,755,595)	(4,565,037)
Net (deficiency) excess of revenue over expense for the year	(924,173)	2,460,168	1,535,995	3,481,372	5,017,367	(6,190,558)
Repayment of associated debt	500,000	(500,000)	-	-	-	-
Purchase of property, plant and equipment	275,240	(275,240)	-	-	-	-
Repayment of contribution to Lawyers Insurance Fund from Trust Administration Fee	-	1,116,067	1,116,067	-	1,116,067	-
Net assets (deficit) - End of year (note 7)	6,527,939	(3,397,845)	3,130,094	(7,752,255)	(4,622,161)	(10,755,595)

The Law Society of British Columbia - General and Special Compensation Funds

Financial Statements

December 31, 2007

Statement of Revenue and Expense

For the year ended December 31, 2007

			2007	2006
	General Fund \$	Special Compensation Fund \$	Total \$	Total \$
				(Restated - note 3)
Revenue				
Practice fees	10,799,155	-	10,799,155	8,386,474
Annual assessments	-	4,951,550	4,951,550	5,832,400
Trust administration fees	3,302,787	-	3,302,787	3,313,337
Enrolment fees	900,589	-	900,589	913,365
Interest and other income	618,863	15	618,878	718,989
E-filing revenue	575,245	-	575,245	413,544
Application fees	334,125	-	334,125	319,254
Fines and penalties	262,343	-	262,343	227,138
	16,793,107	4,951,565	21,744,672	20,124,501
Expenses				
Benchers Governance				
Bencher, AGM and other committee meetings	1,181,879	-	1,181,879	1,213,061
Equity and diversity	72,941	-	72,941	59,157
Federation of Law Societies' contribution	135,808	-	135,808	126,317
Communication and Information Services				
Communications and publications	790,138	-	790,138	682,859
Information services	915,476	-	915,476	720,993
Education and Practice				
Credentials	404,411	-	404,411	437,810
Ethics	98,309	-	98,309	110,470
Member services	505,946	-	505,946	436,004
Membership assistance programs	180,066	-	180,066	195,851
Practice advice	477,801	-	477,801	421,151
Practice standards	305,538	-	305,538	274,821
Professional Legal Training Course and Education	1,635,672	-	1,635,672	1,711,897
General and Administrative				
Accounting	588,421	-	588,421	354,854
Amortization of other property, plant and equipment	481,599	-	481,599	487,234
General office administration	1,187,082	-	1,187,082	1,478,567
Human resources	436,402	-	436,402	689,901
Records management and library	199,565	-	199,565	268,607
Policy and Legal Services				
Policy and legal services	1,306,994	-	1,306,994	1,476,454
Unauthorized practice	188,160	-	188,160	190,880
Regulation				
Audit and investigation	1,371,715	-	1,371,715	1,156,625
Custodianship costs	1,157,189	-	1,157,189	1,296,267
Discipline and complaints	3,051,954	-	3,051,954	2,905,575
Trust assurance	942,974	-	942,974	565,060
Special Compensation Fund				
Claims and costs (note 10)	-	827,815	827,815	10,367,839
General and administrative costs	-	547,016	547,016	638,009
Loan interest to Lawyers Insurance Fund (note 9)	-	(4,638)	(4,638)	118,959
	17,616,040	1,370,193	18,986,233	28,385,222
Costs recovered from Lawyers Insurance Funds				
Co-sponsored program costs	(654,055)	-	(654,055)	(634,112)
Program and administrative costs	(1,295,180)	100,000	(1,195,180)	(1,219,108)
	15,666,805	1,470,193	17,136,998	26,532,002
Excess (deficiency) of revenue over expenses before the following	1,126,302	3,481,372	4,607,674	(6,407,501)
845 Cambie net results (note 6)	409,693	-	409,693	216,943
Net excess (deficiency) of revenue over expense for the year	1,535,995	3,481,372	5,017,367	(6,190,558)

The Law Society of British Columbia - General and Special Compensation Funds

Financial Statements

December 31, 2007

Statement of Cash Flows

For the year ended December 31, 2007

			2007	2006
	General Fund \$	Special Compensation Fund \$	Total \$	Total \$
				(Restated - note 3)
Cash flows from operating activities				
Net excess (deficiency) of revenue over expense for the year	1,535,995	3,481,372	5,017,367	(6,190,558)
Items not affecting cash				
Amortization of Cambie Street building and tenant improvements	442,078	-	442,078	446,919
Amortization of other property, plant and equipment	481,599	-	481,599	487,234
Loss on disposal of capital assets	1,276	-	1,276	-
	2,460,948	3,481,372	5,942,320	(5,256,405)
Decrease (increase) in current assets				
Unclaimed trust funds	(248,893)	-	(248,893)	(67,603)
Accounts receivable and prepaid expenses	49,144	(63,436)	(14,292)	403,956
B.C. Courthouse Library Fund	(109,252)	-	(109,252)	(106,539)
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities	(970,936)	1,106,743	135,807	1,084,522
Liability for unclaimed trust funds	248,893	-	248,893	67,603
Deferred revenue	2,671,073	(1,387,900)	1,283,173	1,456,095
Deferred capital contributions	85,337	-	85,337	-
B.C. Courthouse Library Grant	109,252	-	109,252	106,539
Deposits	6,630	-	6,630	(25,130)
(Decrease) increase in claims payable	-	(1,885,882)	(1,885,882)	7,543,528
	4,302,196	1,250,897	5,553,093	5,206,566
Cash flows from financing activities				
Decrease in long-term debt - net	(500,000)	-	(500,000)	(500,000)
Cash flows from investing activities				
Property, plant and equipment additions - net	(275,240)	-	(275,240)	(1,469,080)
Interfund transfers	(4,435,627)	(1,257,982)	(5,693,609)	(10,598,208)
Decrease in cash and cash equivalents	(908,671)	(7,085)	(915,756)	(7,360,722)
Cash and cash equivalents - Beginning of year	960,564	7,660	968,224	8,328,946
Cash and cash equivalents - End of year	51,893	575	52,468	968,224
Supplementary cash flow information				
Interest paid	226,499	-	226,499	475,186
Interest income	-	4,638	4,638	-

The Law Society of British Columbia - General and Special Compensation Funds

Financial Statements

December 31, 2007

Notes to Financial Statements

1. Nature of operations and basis of presentation

Description of the Funds

The General Fund comprises the assets, liabilities, net assets, revenue and expense of the operations of The Law Society of British Columbia (the Society) other than those designated to the statutory Special Compensation Fund and Lawyers Insurance Fund.

The Special Compensation Fund is maintained by the Society pursuant to Section 31 of the Legal Profession Act to reimburse persons who sustain a pecuniary loss as a result of the misappropriation or wrongful conversion by a member of the Society of money or other property entrusted to or received by the member in his or her capacity as a barrister or solicitor. The Special Compensation Fund is financed by members' annual assessments, and claims are recorded net of recoveries from the Special Compensation Fund's insurers when they have been approved for payment by the Special Compensation Fund Committee as delegated by the Benchers and the settlement has been accepted by the claimant. The Legal Profession Act provides that the assets of the Special Compensation Fund are not subject to process of seizure or attachment by creditors of the Society.

The Society is a not-for-profit organization and the Funds are considered to be non-assessable under current income tax legislation.

2. Significant accounting policies

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of certain revenues and expenses during the year. Actual results could differ from these estimates.

Financial instruments

On January 1, 2007, the Fund adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, "Financial Instruments - Recognition and Measurement" and the amendments to CICA Handbook sections and accounting guidelines resulting from the issuance of these sections. Under the new standards, all financial assets are classified as held-for-trading, held-to-maturity, loans and receivables, or available-for-sale, and all financial liabilities, other than actuarial liabilities, are classified as held-for-trading or other financial liabilities. Financial instruments classified as held-for-trading are measured at fair value with changes in fair value recognized in net income. Financial assets classified as held-to-maturity or as loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Available-for-sale financial assets are measured at fair value with changes in unrealized gains and losses recognized directly in net assets. The adoption of Section 3855 has not impacted the financial statements.

Fair value of financial instruments

The fair value of cash and cash equivalents, accounts receivable and prepaid expenses, accounts payable and accrued liabilities corresponds to their carrying values due to their short-term nature.

The carrying value of the building loan payable approximates its fair value based upon the discount rates applied.

The fair value of claims payable is disclosed in note 10(b).

Future impact of recently issued accounting standards

Capital disclosures and financial instruments - disclosure and presentation

On January 1, 2008, the Fund will adopt three new CICA Handbook Sections: Section 1535, "Capital Disclosures"; Section 3862, "Financial Instruments - Dis-

closures"; and Section 3863, "Financial Instruments Presentation". Section 1535 requires disclosure of an entity's objectives, policies and processes for managing capital; information about what the entity regards as capital; whether the entity has complied with any capital requirements; and the consequences of not complying with these capital requirements. Sections 3862 and 3863 replace Handbook Section 3861, "Financial Instruments - Disclosure and Presentation". Section 3863 carries forward unchanged the presentation requirements of Section 3861 while Section 3862 requires enhanced financial instrument disclosures focusing on disclosures related to the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Fund will apply the new disclosures in its 2008 financial statements.

Allocated administrative expenses

Administrative expenses are recovered by the General Fund from both the Lawyers Insurance and Special Compensation Funds. Recoveries are based on amounts derived either on percentage of use or the percentage of the Fund's staff as compared to the Society's total staff costs or a set amount.

Allocated rental revenue

The Cambie Street property is treated as a separate cost centre. Allocated rental revenue represents rent allocated to each of the funds. Rental revenue allocated to the General Fund has not been eliminated in the preparation of these financial statements.

Amortization

Amortization is provided on a straight-line basis as follows:

Buildings	2-1/2% per annum
Computer hardware	20% per annum
Computer software	10-20% per annum
Furniture and fixtures	10% per annum
Leasehold improvements	10% per annum

Tenant improvements are amortized over the term of the lease to which they relate. The Society recognizes a full year's amortization expense in the year of acquisition.

B.C. Courthouse Library Fund

The Society administers funds held on behalf of the B.C. Courthouse Library. Such funds are held in trust and the use of the funds is not recorded in the statement of revenue and expense of the General Fund. The Society grants money to the B.C. Courthouse Library through its fees per lawyer assessments.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Claims liabilities

In accordance with the absolute discretionary nature of the Special Compensation Fund arrangements, the claims become a liability only when approved by the Special Compensation Fund Committee and accepted by the claimant.

Comparative figures

Certain comparative figures in these statements have been reclassified to conform to the current year's presentation.

Deferred capital contributions

Contributions restricted for the purchase of capital assets are deferred and recognized as revenue on the same basis as the capital assets are amortized.

The Law Society of British Columbia - General and Special Compensation Funds

Financial Statements

December 31, 2007

Revenue recognition

The Society follows the deferral method of accounting for annual fees and assessments. Fees and assessments are billed and received in advance on a calendar-year basis. Accordingly, fees and assessments for the next fiscal year received prior to December 31 have been deferred for financial reporting purposes and will be recognized as revenue in the next calendar year.

All other revenues are recognized when receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Unclaimed trust funds

The General Fund recognizes a liability for unclaimed trust funds on the statement of financial position. If these funds are claimed, the owner of the trust fund balance is entitled to the principal balance plus interest at prime rate minus 2%. Due to the historically low collection rates on these bal-

ances, the General Fund does not accrue for any interest owing on the trust fund amounts held and recognizes income earned from the unclaimed trust fund investments in the statement of revenue and expense. Unclaimed funds outstanding for more than five years are transferred to the Law Foundation.

3. Accounting change

During 2007, management determined that previously unrecognized outstanding vacation entitlements should be recorded as a liability. The change has been applied retroactively and the impact was to increase accounts payable and accrued liabilities and reduce net assets at December 31, 2006 and 2005 by \$372,218 and \$370,218, respectively. This change had an insignificant impact on the net deficiency of revenue over expense and cash flows for the year ended December 31, 2006.

4. Property, plant and equipment

845 Cambie Street property

	2007		2006	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Land	4,189,450	-	4,189,450	4,189,450
Buildings	11,402,112	4,458,023	6,944,089	7,208,559
Leasehold improvements	4,802,213	3,547,989	1,254,224	1,443,499
Tenant improvements	1,105,544	1,083,248	22,296	41,663
	21,499,319	9,089,260	12,410,059	12,883,171

Other property, plant and equipment

	2007		2006	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Furniture and fixtures	2,397,567	1,750,853	646,714	743,114
Computer hardware	1,049,008	779,808	269,200	291,532
Computer software	1,668,088	1,366,902	301,186	359,055
Law libraries - at nominal value	1	-	1	1
	5,114,664	3,897,563	1,217,101	1,393,702

5. Deferred capital contributions

Deferred capital contributions represent externally restricted grants for the purchase of capital assets. Unamortized amounts which will be recognized as revenue in future periods are as follows:

	2007 \$	2006 \$
Balance - Beginning of year	-	-
Received from the Law Foundation	85,337	-
Balance - End of year	85,337	-

The Law Society of British Columbia - General and Special Compensation Funds

Financial Statements

December 31, 2007

6. 845 Cambie operating revenue - net

	2007 \$	2006 \$
Rental revenue	388,301	344,467
Allocated rental revenue	1,375,886	1,378,138
	1,764,187	1,722,605
Expense		
Amortization	442,078	446,919
Insurance	66,504	76,398
Net loan interest (note 8)	226,499	356,227
Property management salaries	145,834	140,419
Property taxes	268,592	276,086
Repairs and maintenance	314,857	316,881
Utilities	130,530	138,443
Recovery from tenants	(240,400)	(245,711)
	1,354,494	1,505,662
Net operating revenue	409,693	216,943

7. Unrestricted net assets

The General Fund unrestricted net assets include \$1,090,000 which has been appropriated for contribution to future Trust Administration Fee related expenses. During the year, \$3.3 million (2006 - \$3.3 million) in trust administration fee revenue was collected, and \$3.5 million (2006 - \$3.1 million) in trust administration fee expenses were incurred, consisting of expenses related to trust assurance, audit and investigations and custodianships.

During 2007, the Benchers resolved that the \$1.1 million Trust Administration Fee surplus previously allocated to the Lawyers Insurance Fund be applied to Trust Administration Fee related programs.

8. Building loan payable

In 1992, the Benchers authorized the lending of monies from the Lawyers Insurance Fund to fund the capital development of the Society's buildings at 835-845 Cambie Street, Vancouver, B.C. The loan has no fixed repayment terms and bears interest calculated monthly at a rate equal to the stated monthly bond yield to maturity earned on the Lawyers Insurance Fund investment portfolio. It is the intention of the Fund to repay a minimum of \$500,000 of the principal each year. During 2007, principal of \$500,000 (2006 - \$500,000) was repaid.

	2007 %	2006 %
Weighted average rate of interest	4.81	4.52

9. Interfund transactions

The operations of the General, Lawyers Insurance and Special Compensation Funds are controlled by the management of the Society. Transactions between the funds arise from transactions of an operating nature and are recorded at fair values at the dates of the transactions. Surplus funds are invested in the Insurance Fund's investment portfolio.

Amounts due to and from the Lawyers Insurance Fund are due on demand and have no fixed terms of repayment. The Lawyers Insurance Fund has provided a loan facility of up to \$1 million to the General Fund to fund capital expenditures in accordance with the 10-year capital plan. The Lawyers Insurance Fund has also provided a loan facility of up to \$8 million to the Special Compensation Fund.

Monthly interest on the Lawyers Insurance Fund's net loan position with the General and Special Compensation Funds is paid to the Lawyers Insurance Fund at the rate equal to the stated monthly bond yield to maturity earned on the Lawyers Insurance Fund investment portfolio. The average bond yield for 2007 was 4.81% (2006 - average rate - 4.52%). The General Fund's net loan position includes the General Fund's building loan and other operating balances with the Lawyers Insurance Fund. This net loan position fluctuates during the year as amounts are transferred between the General Fund and the Lawyers Insurance Fund to finance ongoing operations.

During the year, interest paid to the Lawyers Insurance Fund totalled \$221,860 (2006 - \$475,186) after deduction of approximately \$139,061 (2006 - \$9,893) of interest revenue received from General Fund cash balances held by the Lawyers Insurance Fund.

Other interfund transactions are disclosed elsewhere in these financial statements.

10. Special Compensation Fund claims

As the Special Compensation Fund is in deficiency, its ability to make further settlements and reduce the deficiency is dependent on future member assessments and a loan facility from the Lawyers Insurance Fund (note 9).

(a) Outstanding claims

Pursuant to section 31(6) of the Legal Profession Act, the payment of Special Compensation Fund claims is at the discretion of the Special Compensation Fund Committee as delegated by the Benchers. As at December 31, 2007, there were 43 claims amounting to \$2,029,282 for which statutory declarations had been received. In addition, there were potential claims amounting to approximately \$3 million for which no statutory declarations had been received. All claims for which statutory declarations are received will be reviewed by the Special Compensation Fund Committee in due course. These amounts do not include an estimate for claims attributable of which the Society is unaware.

For claims reported prior to May 1, 2004, the insurance bond provides that total claims attributable to the period in excess of \$2,500,000 are 100% reimbursed by a commercial insurer up to a maximum of \$15,000,000 for claims against one lawyer and in total, other than as noted in note 10(b).

The Law Society of British Columbia - General and Special Compensation Funds

Financial Statements

December 31, 2007

At the December 2003 meeting, the Benchers approved, to be effective May 1, 2004, a Part B amendment to the B.C. Lawyers' Compulsory Professional Liability Insurance Policy that provides defined insurance coverage for dishonest appropriation of money or other property entrusted to and received by insured lawyers in their capacity as barrister and solicitor and in relation to the provision of professional services. The Part B (Trust Protection Coverage) is recorded in the Lawyers Insurance Fund.

(b) Wirick case

In May 2002, the Discipline Committee ordered an audit investigation, pursuant to Rule 4-43, of Martin Keith Wirick's practice. Since then, the Society has continued to investigate the various claims attributed to Mr. Wirick's practice activities. Information continues to be received to assist in the investigation of claims. At each Benchers' meeting since May 2002, the Benchers have been given a detailed update of the status of the outstanding claims, investigation costs and any relevant information concerning possible recoveries. This will continue until the file is closed.

	2007	2006
Number of open claims as at December 31	8	26
	\$	\$
Amount claimed	700,000	700,000
Amount reviewed (number of claims - 26; 2006 - 157)	700,000	15,600,000
Amount denied due to duplication (number of claims - 13; 2006 - 22)	-	1,600,000
Amount adjourned (number of claims - 8; 2006 - 26)	700,000	700,000
Total approved for payment	-	9,500,000
Total paid - net of recoveries	1,500,000	2,800,000

Until May, 1, 2004, the Special Compensation Fund carried insurance of \$15,000,000 for each bond period (\$17,500,000 total coverage with a deductible of \$2,500,000). The bond period is defined as the year in which the Society becomes aware of evidence indicating a member may have been guilty of an act or acts of misappropriation or wrongful conversion. All claims concerning Mr. Wirick will fall into the 2002 bond period and as such, the Special Compensation Fund has claims greater than its level of insurance. The Insurer's coverage for the 2002 bond period is \$15,000,000. In early 2005, the final proof of loss that reached this limit was filed. In 2002, the Benchers agreed to allow the Special Compensation Fund Committee to exceed the \$17,500,000 cap they had imposed in the Society rules.

In 2006, the Benchers approved a payment of \$7,543,528 to be paid to claimants over four years commencing in fiscal 2007 at \$1,885,882 per year.

The fair values of these payments are estimated as follows:

	\$
2008	1,885,882
2009	1,790,315
2010	1,706,403
Claims payable	5,382,600

11. Related parties

The Benchers are drawn from law firms across the province. These law firms may at times be engaged by the Society in the normal course of business. During the year ended December 31, 2007, expenses of \$166,227 were incurred.

The Law Society of British Columbia - Lawyers Insurance Fund

Consolidated Financial Statements

December 31, 2007

June 4, 2008

Auditors' Report

To the Members of

The Law Society of British Columbia

We have audited the consolidated statement of financial position of **The Law Society of British Columbia - Lawyers Insurance Fund** as at December 31, 2007 and the consolidated statements of revenue and expense, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2007 and the results of its operations, the changes in its net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, BC

The Law Society of British Columbia - Lawyers Insurance Fund

Consolidated Financial Statements

December 31, 2007

Consolidated Statement of Financial Position

As at December 31, 2007

	2007	2006
	\$	\$
Assets		
Cash and cash equivalents	17,441,506	6,325,661
Accounts receivable	155,325	16,402
Income taxes receivable	5,950	4,130
Prepaid expenses	44,277	27,713
Reinsurers' share of provision for claims (note 5)	1,312,844	5,051,537
Due from members	1,496,395	1,420,801
General Fund building loan (note 4)	7,100,000	7,600,000
Investments (note 3)	112,648,940	104,148,841
	140,205,237	124,595,085
Liabilities		
Accounts payable and accrued liabilities	1,121,127	843,819
Deferred revenue	5,022,989	5,012,110
Due to General Fund (note 7)	12,868,170	7,271,751
Due to Special Compensation Fund (note 7)	2,279,469	1,066,212
Provision for claims (note 6)	62,087,190	58,818,291
Provision for ULAE (note 6)	8,518,875	6,923,518
	91,897,820	79,935,701
Net assets		
Unrestricted net assets	30,807,417	44,659,384
Internally restricted net assets (note 8)	17,500,000	-
	48,307,417	44,659,384
	140,205,237	124,595,085

Approved by



President



Chair of Audit Committee

The Law Society of British Columbia - Lawyers Insurance Fund

Consolidated Financial Statements

December 31, 2007

Consolidated Statement of Changes in Net Assets

For the year ended December 31, 2007

	2007		2006	
	Unrestricted \$	Internally restricted \$	Total \$	Total \$
Net assets - Beginning of year	44,659,384	-	44,659,384	36,149,463
Adoption of financial instruments accounting standards (note 2)	14,119,178	-	14,119,178	-
Net assets - Beginning of year, as adjusted	58,778,562	-	58,778,562	36,149,463
(Deficiency) excess of revenue over expense for the year	(2,416,209)	-	(2,416,209)	8,509,921
Unrealized gains and losses on available-for-sale financial assets arising during the year	(4,882,906)	-	(4,882,906)	-
Reclassification adjustment for gains included in deficiency of revenue over expense during the year	(2,055,963)	-	(2,055,963)	-
Net change in unrealized gains and losses on available-for-sale financial assets	(6,938,869)	-	(6,938,869)	-
Repayment of contribution from Trust Administration Fee to General Fund	(1,116,067)	-	(1,116,067)	-
Transfer to internally restricted net assets (note 8)	(17,500,000)	17,500,000	-	-
Net assets - End of year	30,807,417	17,500,000	48,307,417	44,659,384

The Law Society of British Columbia - Lawyers Insurance Fund

Consolidated Financial Statements

December 31, 2007

Consolidated Statement of Revenue and Expense

For the year ended December 31, 2007

	2007	2006
	\$	\$
Revenue		
Annual assessments	10,089,010	10,676,076
Investment income (note 3)	7,122,396	6,819,985
Other income	26,700	50,748
	17,238,106	17,546,809
Insurance expense		
Actuary, consultant and investment broker fees	317,625	403,464
Allocated office rent	122,144	122,175
Contribution to costs of General Fund		
Administrative	1,198,752	1,223,071
Office	506,530	517,755
Premium taxes	9,052	9,111
Provision for settlement of claims (note 6)	13,423,840	4,939,476
Provision for ULAE (note 6)	1,595,357	(424,470)
Salaries, wages and benefits	1,832,910	1,610,186
	19,006,210	8,400,768
Loss prevention expense		
Contribution to costs of General Fund		
Co-sponsored program costs	654,055	637,750
	19,660,265	9,038,518
(Deficiency) excess of revenue over expense before the following	(2,422,159)	8,508,291
Income tax recovery	5,950	1,630
(Deficiency) excess of revenue over expense for the year	(2,416,209)	8,509,921

The Law Society of British Columbia - Lawyers Insurance Fund

Consolidated Financial Statements

December 31, 2007

Consolidated Statement of Cash Flows

For the year ended December 31, 2007

	2007	2006
	\$	\$
Cash flows from operating activities		
(Deficiency) excess of revenue over expense for the year	(2,416,209)	8,509,921
Items not affecting cash		
Realized gain on disposal of investments	(2,055,963)	(3,533,569)
Amortization of 750 Cambie Street building	463,114	459,869
Amortization of deferred tenant inducement	43,989	45,826
	(3,965,069)	5,482,047
Decrease (increase) in assets		
Accounts receivable	(138,923)	145,416
Accrued interest receivable	-	65
Income taxes receivable	(1,820)	9,607
Prepaid expense	(16,564)	226,070
Reinsurers' share of provision for claims	3,738,693	(237,819)
Due from members	(75,572)	675,974
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	277,308	31,950
Deferred revenue	10,879	(279,403)
Provision for claims	3,268,899	(3,519,721)
Provision for ULAE	1,595,357	(424,470)
	4,693,188	2,109,716
Cash flows from investing activities		
Disposal (purchase) of investments - net	253,936	(7,289,762)
Decrease in General Fund building loan	500,000	500,000
Increase in 750 Cambie Street asset	(24,866)	(831,427)
Deferred tenant inducement	-	(408,706)
Decrease in mortgage payable	-	(4,124,684)
	729,070	(12,154,579)
Interfund transfers (notes 4 and 7)	5,693,587	10,598,208
Increase in cash and cash equivalents	11,115,845	553,345
Cash and cash equivalents - Beginning of year	6,325,661	5,772,316
Cash and cash equivalents - End of year	17,441,506	6,325,661

The Law Society of British Columbia - Lawyers Insurance Fund

Consolidated Financial Statements

December 31, 2007

Notes to Consolidated Financial Statements

1. Significant accounting policies and description of the Fund

Description of the Fund

The Lawyers Insurance Fund (the Fund) is maintained by The Law Society of British Columbia (the Society) pursuant to Section 30 of the *Legal Profession Act*. The Society is a not-for-profit organization, and only the subsidiary LSBC Captive Insurance Company Ltd. (the Captive) is considered assessable for income tax under current legislation.

At the December 2003 meeting, the Benchers approved, to be effective May 1, 2004, a Part B amendment to the B.C. Lawyers' Compulsory Professional Liability Insurance Policy that provides defined insurance coverage for dishonest appropriation of money or other property entrusted to and received by insured lawyers in their capacity of barrister and solicitor and in relation to the provision of professional services.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the period reported. The determination of the provisions for claims and unallocated loss adjustment expenses and the reinsurers' share of the provision for claims involves significant estimation. Actual results could differ from those estimates and the differences could be material.

Financial instruments

On January 1, 2007, the Fund adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, "Financial Instruments - Recognition and Measurement" and the amendments to CICA Handbook sections and accounting guidelines resulting from the issuance of these sections. Under the new standards, all financial assets are classified as held-for-trading, held-to-maturity, loans and receivables, or available-for-sale, and all financial liabilities, other than actuarial liabilities, are classified as held-for-trading or other financial liabilities. Financial instruments classified as held-for-trading are measured at fair value with changes in fair value recognized in net income. Financial assets classified as held-to-maturity or as loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Available-for-sale financial assets are measured at fair value with changes in unrealized gains and losses recognized in net assets.

Future impact of recently issued accounting standards

Capital disclosures and financial instruments - disclosure and presentation

On January 1, 2008, the Fund will adopt three new CICA Handbook Sections: Section 1535, "Capital Disclosures", Section 3862, "Financial Instruments - Disclosures", and Section 3863, "Financial Instruments Presentation". Section 1535 requires disclosure of an entity's objectives, policies and processes for managing capital; information about what the entity regards as capital; whether the entity has complied with any capital requirements; and the consequences of not complying with these capital requirements. Sections 3862 and 3863 replace Handbook Section 3861, "Financial Instruments - Disclosure and Presentation". Section 3863 carries forward unchanged the presentation requirements of Section 3861 while Section 3862 requires enhanced financial instrument disclosures focusing on disclosures related to the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Fund will apply the new disclosures in its 2008 financial statements.

Basis of consolidation

These consolidated financial statements include the accounts of the Fund and the Captive, a wholly owned subsidiary.

Deferred tenant inducements

In 2006, the Fund provided two of its tenants in the 750 Cambie Street building with free gross rent at the start of the lease. The total value of this free gross rent is \$408,706. This free gross rent is amortized over the term of the lease.

Allocated administrative expenses

Administrative expenses are recovered by the General Fund of the Society from the Fund. Recoveries are based on amounts derived either on percentage of use or the percentage of Fund's staff as compared to the Society's total staff cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Comparative figures

Certain comparative figures in these statements have been reclassified to conform to the current year's presentation.

Fair value of financial instruments

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities corresponds to their carrying value due to their short-term nature.

Investments

The Society has designated all of its bond and equity investments as available-for-sale investments and reports them at fair value. Changes in the fair value of available-for-sale investments will be reported within the statement of changes in net assets, until the financial asset is disposed of or becomes impaired. All transaction costs are included in the determination of excess of revenue over expense for the year.

The fair value of investments is market value. The market value of publicly traded investments is based on closing bid prices.

Investment income

Investment income is recorded on an accrual basis. Dividends are recorded on the date of record. Gains and losses realized on the disposal of investments are taken into income on the date of disposal.

Provision for claims

The provision for claims represents an estimate for all costs of investigating and settling claims incurred prior to the balance sheet date. The provision is adjusted as additional information on the estimated amounts becomes known during the course of claims settlement. All changes in estimates are expensed in the current period. The Society presents its claims on a discounted basis.

Reinsurance

The Society reflects reinsurance balances on the statement of financial position on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to policy holders, and on a net basis on the statement of revenue and expense to indicate the results of its retention of assessments retained.

Revenue recognition

The Society follows the deferral method of accounting for annual assessments. Assessments are billed and received in advance on a calendar-year basis. Accordingly, assessments for the next fiscal year received prior to December 31 have been deferred for financial reporting purposes and will be recognized as revenue in the next calendar year.

All other revenues are recognized when receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

The Law Society of British Columbia - Lawyers Insurance Fund

Consolidated Financial Statements

December 31, 2007

2. Change in accounting policy - new financial instruments standards

The Fund adopted the provisions of CICA Handbook Section 3855, "Financial Instruments - Recognition and Measurement", on January 1, 2007 which addresses the classification, recognition and measurement of financial instruments in the financial statements. This section was adopted retroactively without restatement of comparative amounts. Net assets at January 1, 2007 were increased by \$14.1 million.

3. Investments

	2007 \$	2006 \$
Investments - at fair value (2006 - \$103,772,312)	98,635,470	89,653,134
750 Cambie Street Building	14,013,470	14,495,707
	112,648,940	104,148,841

The effective yield to maturity on the total portfolio is 2.40% (2006 - 2.15%).

	Carrying cost \$	Gross unrealized gains \$	Gross unrealized losses \$	2007 Estimated fair value \$
Bonds				
Pooled Funds	49,921,316	-	(29,026)	49,892,290
Equity				
Canadian Pooled Funds	11,263,110	6,205,585	-	17,468,695
U.S. Pooled Funds	16,596,642	-	(828,623)	15,768,019
Non-North America Pooled Funds	13,674,093	1,832,373	-	15,506,466
	41,533,845	8,037,958	(828,623)	48,743,180
	91,455,161	8,037,958	(857,649)	98,635,470

	Carrying cost \$	Gross unrealized gains \$	Gross unrealized losses \$	2006 Estimated fair value \$
Bonds				
Pooled Funds	49,309,683	868,251	-	50,177,934
Equity				
Canadian Pooled Funds	10,163,085	7,142,053	-	17,305,138
U.S. Pooled Funds	15,920,846	1,439,477	-	17,360,323
Non-North America Pooled Funds	14,259,520	4,669,397	-	18,928,917
	40,343,451	13,250,927	-	53,594,378
	89,653,134	14,119,178	-	103,772,312

Management has reviewed currently available information regarding investments whose estimated fair value is less than the carrying value, and ascertained that the carrying values are expected to be recovered. Debt securities whose carrying value exceeds market value can be held until maturity.

Investment risk management

The Society has adopted investment guidelines which establish the guidelines for all investment activities. These guidelines apply to the investment funds owned and controlled by the Society.

The Society's overall investment philosophy is to maximize the long-term real rate of return subject to an acceptable degree of risk.

The Society's long-term funding requirements and relatively low level of liquidity dictate a moderate to aggressive portfolio with a mix of fixed income and equity securities. The Society invests in bonds and equities through pooled funds.

Credit risk

Credit risk on financial instruments arises from the possibility that a counterparty to an instrument fails to meet its obligations. The investment guidelines mitigate credit risk by ensuring the investments in the bond pooled funds have an adequate minimum credit rating and well-diversified portfolios.

The Law Society of British Columbia - Lawyers Insurance Fund

Consolidated Financial Statements

December 31, 2007

Liquidity and interest rate risk

The maturity profile based on the market value as at December 31, 2007 and 2006 is as follows:

	Within 1 year \$	1 to 5 years \$	5 to 10 years \$	Over 10 years \$	Total \$
Bonds pooled					
2007	3,043,430	29,186,990	5,887,290	11,774,580	49,892,290
2006	3,813,522	21,425,978	9,483,630	15,454,804	50,177,934

Investment income

	2007 \$	2006 \$
Investment income		
Cash and treasury bills	18,625	3,186
Pooled distribution income	4,411,004	2,823,729
Net interfund loan interest (note 7)	221,860	475,186
Realized gain on disposal of investments	2,055,963	3,533,569
Building income (loss) - 750 Cambie Street	414,944	(15,685)
Net investment income	7,122,396	6,819,985

750 Cambie Street Building

In 2004, a building at 750 Cambie Street was purchased as an investment for the Fund. The building was purchased for \$9,388,820 and a \$4,339,383 mortgage was assumed for this purchase. In 2006, the mortgage was repaid.

		2007	2006
	Cost \$	Accumulated amortization \$	Net \$
Land	4,299,850	-	4,299,850
Building	4,971,376	436,729	4,534,647
Base building improvements	3,219,651	240,993	2,978,658
Tenant improvements	2,388,412	506,987	1,881,425
Deferred tenant inducements	408,705	89,815	318,890
	15,287,994	1,274,524	14,013,470

Amortization is provided on a straight-line basis as follows:

Building	2-1/2% per annum
Base building - improvements	2-1/2% per annum
Tenant improvements	over lease period
Deferred tenant inducements	over lease period

4. General Fund building loan

In 1992, the Benchers authorized the lending of monies from the Fund to fund the capital development of the Society's buildings at 835-845 Cambie Street, Vancouver, B.C. The loan is secured by the building, has no fixed repayment terms and bears interest calculated monthly at a rate equal to the stated monthly bond yield to maturity earned on the Fund investment portfolio. It is the intention of the Benchers to require the General Fund to repay a minimum of \$500,000 on the principal each year. During 2007, principal of \$500,000 (2006 - \$500,000) was repaid.

	2007 %	2006 %
Weighted average rate of return	4.81	4.52

The Law Society of British Columbia - Lawyers Insurance Fund

Consolidated Financial Statements

December 31, 2007

5. Errors and omissions insurance claims

Effective January 1, 1990, the Fund began underwriting the program by which errors and omissions insurance is provided to members of the Society. The Society's members have current coverage as follows:

	2007	
	\$	\$
Deductible - member	5,000 or	10,000
Deductible - the Fund	995,000 or	990,000
Total coverage per occurrence		1,000,000
Annual aggregate per member		2,000,000

The amount of the member deductible is \$5,000 for each initial claim resulting in the payment of damages and \$10,000 for each additional claim within a three-year period resulting in the payment of damages.

For claims reported between 1990 and 1996, the Captive entered into reinsurance contracts under which all claim payments above a per claim limit and in excess of inner aggregate retentions were ceded to reinsurers. Reinsurance does not relieve the Captive of primary liability as the originating insurer. The Captive has not entered into reinsurance contracts for claims

reported since January 1, 1997. All losses on claims since 1997 are fully reimbursed, as a deductible, by the Law Society under agreement.

Effective May 1, 2004, the Captive's B.C. Lawyers' Compulsory Professional Liability Insurance Policy was amended to include Part B defalcation coverage. For the 2007 policy period, there is a \$17,500,000 profession wide aggregate limit. The Fund has obtained insurance in the amount of \$5,000,000 to cover a portion of the annual aggregate limit. This insurance is subject to a \$3,000,000 deductible and is co-insured 30/70.

6. Provision for claims and unallocated loss adjustment expenses (ULAE)

The changes in unpaid claims recorded in the consolidated statement of financial position are as follows:

	2007 \$	2006 \$
Part A Insurance Coverage		
Provision for claims - Beginning of year	58,459,291	61,938,488
Provision for losses and expenses for claims occurring in the current year	13,694,000	11,563,000
Decrease in estimated losses and expenses for losses occurring in prior years	(557,782)	(6,583,000)
Provision for claims liability	71,595,509	66,918,488
Less:		
Payments on claims incurred in the current year	(874,589)	(1,055,827)
Payments on claims incurred in prior years	(5,718,162)	(8,223,276)
Recoveries on claims	192,432	939,906
Change in reinsurers' share of (recovery of) provision for claims	(3,754,000)	562,000
Change in due from members	63,000	(682,000)
Claim payments - net of recoveries	(10,091,319)	(8,459,197)
Provision for claims - End of year	61,504,190	58,459,291
Part B Insurance Coverage	583,000	359,000
Total provision for part A and B Insurance Coverage	62,087,190	58,818,291

The determination of the provision for unpaid claims, and adjustment expenses and the related reinsurers' share requires the estimation of three major variables or quanta, being development of claims, reinsurance recoveries and the effects of discounting, to establish a best estimate of the value of the respective liability or asset.

The provision for unpaid claims and adjustment expenses and related reinsurers' share is an estimate subject to variability, and the variability, as with any insurance company, could be material in the near term. The variability arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Variability can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, significant changes in severity or frequency of claims from historical trends, the timing of claims payments, the recoverability of reinsurance, and future rates of

investment return. The estimates are principally based on the Society's historical experience. Methods of estimation have been used that the Society believes produce reasonable results given current information.

The provision for ULAE is an actuarially determined estimate of the Society's future costs relating to the administration of claims incurred up to the statement of financial position date.

The Society discounts its best estimate of claims provisions at a rate of interest of 4.5% (2006 - 6.6%). The Society determines the discount rate based upon the expected return on its investment portfolio of assets with appropriate assumptions for interest rates relating to reinvestment of maturing investments.

The Law Society of British Columbia - Lawyers Insurance Fund

Consolidated Financial Statements

December 31, 2007

To recognize the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the actuarial liabilities are adequate to pay future benefits, the Society includes Provisions for Adverse Deviations (PFADs) in some assumptions relating to claims development, reinsurance recoveries and future investment income. The PFADs selected are in the mid range of those recommended by the Canadian Institute of Actuaries.

Part B (Trust Protection Coverage)

Trust protection coverage was introduced on May 1, 2004. Part B provides a profession-wide annual aggregate of \$17.5 million, inclusive of both defence costs and settlements. The Society purchased insurance for Part B losses. The policy provides a limit of \$5 million subject to a self-insured retention of \$3 million, and co-insurance of 30%. The actuarial provision as at December 31, 2007 for unpaid claims is \$583,000 (2006 - \$359,000). At December 31, 2007, there were 62 reports of claims and potential claims under Part B. This compares with 58 reports of claims and potential claims under Part B as of December 31, 2006.

7. Interfund transactions

The operations of the Fund, the General Fund and the Special Compensation Fund are controlled by the management of the Society. Transactions between the Funds arise from transactions of an operating nature and are recorded at fair values at the dates of the transactions.

Amounts due to and from the General Fund are unsecured, due on demand and have no fixed terms of repayment. The Fund has provided a loan facility of up to \$1 million to the General Fund to fund capital expenditures in accordance with the 10-year capital plan. The Lawyers Insurance Fund has also provided a loan facility of up to \$8 million to the Special Compensation Fund.

Monthly interest on the Fund's net loan position with the General Fund and Special Compensation Fund is paid to the Fund at a rate equal to the stated

monthly bond yield to maturity earned on the Fund investment portfolio. The average bond yield for 2007 was 4.81% (2006 average rate - 4.52%). The Fund's net loan position includes the General Fund building loan, other operating balances with the General Fund and the loan with the Special Compensation Fund. This net loan position fluctuates during the year as amounts are transferred between the General Fund and the Fund to finance ongoing operations.

During the year, the interest received by the Fund totalled \$221,860 (2006 - \$475,186) after deduction of approximately \$139,061 (2006 - \$9,893) of interest revenue paid to the General Fund on General Fund cash balances held by the Fund during the year.

Other interfund transactions are disclosed elsewhere in these consolidated financial statements.

8. Internally restricted net assets

The Benchers have allocated \$17,500,000 of the net assets to the Part B defalcation coverage.

9. Regulatory requirements

The Captive is licensed under the Insurance (Captive Company) Act of B.C. The regulations of this Act require the Captive to maintain certain minimum reserves. The Captive was in compliance with those regulations as at December 31, 2007.

10. Related parties

The Benchers are drawn from law firms across the province. These law firms may at times be engaged by the Society in the normal course of business. During the year ended December 31, 2007, expenses of \$77,958 were incurred.

The Law Society of British Columbia



For additional copies of the Law Society of British Columbia's 2007 Annual Report, please contact the Communications Department, or download from the Society's website at lawsociety.bc.ca

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The Law Society
of British Columbia



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