



# Agenda

## Benchers

Date: Saturday, May 10, 2014

Time: **7:30 am** Breakfast (The Copper Room)

**8:30 am** Call to order

Location: Harrison Hot Springs Resort's Miami Cheam Room (East Tower)

Recording: *Benchers, staff and guests should be aware that a digital audio recording is made at each Benchers meeting to ensure an accurate record of the proceedings.*

### CONSENT AGENDA:

The Consent Agenda matters are proposed to be dealt with by unanimous consent and without debate. Benchers may seek clarification or ask questions without removing a matter from the consent agenda. Any Bencher may request that a consent agenda item be moved to the regular agenda by notifying the President or the Manager, Executive Support (Bill McIntosh) prior to the meeting.

ITEM	TOPIC	TIME (min)	SPEAKER	MATERIALS	ACTION
1	Consent Agenda <ul style="list-style-type: none"> <li>Minutes of April 11, 2014 meeting (regular session)</li> <li>Minute of May 1, 2014 Email Assent to Motion</li> <li>Review of the Law Society's Tribunals Program</li> <li>External Appointments: Vancouver Foundation Board of Directors; Legal Services Society Board of Directors</li> <li>Ratification of the Aboriginal Scholarship Recipient</li> </ul>	1	President	Tab 1.1  Tab 1.2  Tab 1.3  Tab 1.4  Tab 1.5	Approval  Approval  Approval  Approval



# Agenda

ITEM	TOPIC	TIME (min)	SPEAKER	MATERIALS	ACTION
<b>DISCUSSION/DECISION</b>					
2	Review of the Law Society's 2013 Audited Financial Statements and Financial Reports and the 2014 First Quarter Financial Report	15	Ken Walker, QC Jeanette McPhee	Tab 2	Approval
<b>GUEST PRESENTATIONS</b>					
3	Federation of Law Societies of Canada Executive Update	30	Marie-Claude Bélanger-Richard, QC and Jonathan Herman		Presentation
<b>REPORTS</b>					
4	President's Report	15	President	Oral report (update on key issues)	Briefing
5	CEO's Report	15	CEO	Tab 5	Briefing
6	2012-2014 Strategic Plan Implementation Update	5	President/ CEO		Briefing
7	Federation Council Report		Gavin Hume, QC		Briefing
8	Report on Outstanding Hearing & Review Decisions	4	President	(To be circulated at the meeting)	Briefing
<b>FOR INFORMATION</b>					
9	TWU Correspondence			Tab 9	Benchers' Information

# Agenda

The Law Society  
of British Columbia



ITEM	TOPIC	TIME (min)	SPEAKER	MATERIALS	ACTION
<b><i>IN CAMERA</i></b>					
10	<i>In camera</i> <ul style="list-style-type: none"> <li>• Benchers concerns</li> <li>• Other business</li> </ul>	20	President / CEO		Discussion/ Decision



# Minutes

## Benchers

Date: Friday, April 11, 2014

Present:	Jan Lindsay, QC, President	Peter Lloyd, FCA
	Ken Walker, QC, 1 <sup>st</sup> Vice-President	Jamie Maclaren
	David Crossin, QC, 2 <sup>nd</sup> Vice-President	Sharon Matthews, QC
	(by telephone)	Ben Meisner
	Haydn Acheson	Maria Morellato, QC
	Joseph Arvay, QC	David Mossop, QC
	Pinder Cheema, QC	Lee Ongman
	David Corey (by telephone)	Greg Petrisor
	Jeevyn Dhaliwal	Claude Richmond
	Lynal Doerksen	Phil Riddell
	Thomas Fellhauer	Elizabeth Rowbotham
	Craig Ferris	Herman Van Ommen, QC
	Martin Finch, QC	Cameron Ward
	Miriam Kresivo, QC	Tony Wilson
	Dean Lawton	

Excused: Satwinder Bains  
Nancy Merrill

Counsel Present: Geoffrey Gomery, QC

Staff Present: Tim McGee, QC  
Jeffrey Hoskins, QC  
Bill McIntosh

<p>Guests: Kevin Boonstra  Anne Chopra  Cedric Hughes  Gavin Hume, QC  Bob Kuhn, J.D.  Wayne Robertson, QC  Kevin Sawatsky</p> <p>Alex Shorten  Krista Simon  Geoffrey Trotter  Sandra Wilkinson</p>	<p>Legal Counsel, Trinity Western University  Ombudsperson, Law Society of British Columbia  Law Society Member, Hughes &amp; Company Law Corporation  Life Bencher  President, Trinity Western University  Executive Director, Law Foundation of BC  Vice-Provost (Business) and Legal Counsel, Trinity Western University  Vice President, Canadian Bar Association, BC Branch  Law Society Member, Hammerberg Lawyers  Law Society Member, Geoffrey Trotter Law Corporation  Law Society Member, Ministry of Justice – Legal Services Branch</p>
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## CONSENT AGENDA

### 1. Minutes

#### a. Minutes

The minutes of the meeting held on February 28, 2014 were approved as circulated.

The *in camera* minutes of the meeting held on February 28, 2014 were approved as circulated.

The minute of the March 17, 2014 email approval of time limits on Benchers' speeches at the April 11 Bencher meeting was approved as circulated.

#### b. Resolutions

The following resolution was passed unanimously and by consent.

- Recommendation to Form the Legal Services Regulatory Framework Task Force, and Proposed Mandate

*BE IT RESOLVED to create the Legal Services Regulatory Framework Task Force, and to endow that body with the mandate to develop a regulatory framework by which other existing providers of legal services, or new stand-alone groups who are neither lawyers nor notaries, could provide credentialed and regulated legal services in the public interest. Specifically, the Task Force should:*

- (a) *identify areas of unmet needs for legal services or advice;*
- (b) *identify who in British Columbia and elsewhere, besides lawyers and notaries, currently provide legal services and assess the current value and skill that those providers bring to their work;*
- (c) *identify areas of legal practice suitable for the provision of legal services by non-lawyers;*
- (d) *identify the qualifications necessary for non-lawyers to be able to provide such services;*
- (e) *make recommendations to the Benchers for a regulatory framework to:*
  - (i) *credential non-lawyers to provide legal services in discrete areas of practice;*

- (ii) *set standards for the provision of such services; and*
- (f) *ensure that the framework developed is consistent with a unified regulatory regime for legal services.*

## REPORTS

### 2. President's Report

Ms. Lindsay briefed the Benchers on various Law Society matters to which she has attended since the last meeting, including:

#### a. Legal Services Regulatory Framework Task Force Membership

The Bencher-members of the Legal Services Regulatory Framework Task Force are: Art Vertlieb, QC (Chair), David Crossin, QC (Vice-Chair), Satwinder Bains, Jeevyn Dhaliwal and Lee Ongman. The non-Bencher members are: Karey Brooks (Janes Freedman Kyle Law Corporation), Nancy Carter (Ministry of Justice), Dean Crawford (Canadian Bar Association, BC Branch), Carmen Marolla (BC Paralegal Association), Wayne Robertson, QC (Law Foundation of BC) and Ken Sherk (BC Society of Notaries).

#### b. BC Supreme Court Assessment Panels

The BC Supreme Court is seeking applicants for two new Vancouver Registry positions (Master and Registrar). Ms. Lindsay and First Vice-President Ken Walker, QC will serve on the assessment panels to review the applications.

#### c. Federation of Law Societies of BC Conference and Council Meeting in Regina

The Law Society is well-represented by its Federation Council representative, Gavin Hume, QC, who will report on the recent (April 2 – 5) Federation Conference and Council Meeting in Regina.

#### d. Replacement of Barry Zacharias as County of Prince Rupert Bencher

A Bencher by-election is underway (June 6) in the County of Prince Rupert, following Barry Zacharias's recent resignation as Bencher for that district. Mr. Mossop has replaced Mr. Zacharias as Chair of the Access to Legal Services Advisory Committee and Ms. Merrill is now Vice-Chair.

#### **e. Legal Services Society Funding Update**

A recent letter from the Honourable Suzanne Anton, QC (previously circulated to the Benchers) provided an update on Legal Services Society funding, and outlined a number of provincial government initiatives intended to enhance access to legal services.

#### **f. Recent Honours**

The following recent honours were announced:

- Past President Bruce LeRose, QC has been recognized by the City of Trail for his distinguished record of public service, most notably for serving as the Law Society's first President from Kootenay County in 2012;
- Vancouver Bencher Joseph Arvay, QC, is the recipient of the 2014 Robert S. Litvack Award, from the McGill University Centre for Human Rights and Legal Pluralism
- The Law Society's [Justicia Project](#) has been nominated for a provincial Nesika Award for the project's efforts to promote diversity and equity in the legal profession over the past year. The nomination came from a member of the public. "Nesika" (pronounced Ne-SAY-ka) is Chinook for "we, us, our" and comes from a trade language used by many different Aboriginal linguistic groups along the west coast of North America. The Nesika Awards were started in 2008 to recognize the people, organizations and businesses whose exceptional work helps bring our diverse cultures together.

### **3. CEO's Report**

Mr. McGee advised that since the February 28 Bencher meeting, preparations for the TWU debate and decision at today's meeting have occupied much of his time and attention, and that of many Law Society staff members. Mr. McGee's usual written report to the Benchers will be included in the agenda package for the May meeting.

Preparations for the third Justice Summit (May 4-5) are well underway. Convened by the Ministry of Justice, this summit will focus on issues of access to justice and legal services in family law matters. Mr. McGee will serve as moderator, and Policy & Legal Services Manager Michael Lucas is a member of the planning committee.

### **4. Federation Council Member's Report on the Federation's Council Meeting and Conference: April 3-5, Regina**

Gavin Hume, QC briefed the Benchers as the Law Society's Federation Council member regarding the recent Federation Conference and Council meeting in Regina.



Key topics of the April 3 Council meeting were:

- National Discipline Standards Pilot Project
  - a set of national discipline standards were approved, to be sent to the member law societies for review and approval
  - a standing committee was created to monitor those standards
- Strategic Planning
  - review of the Federation's current strategic plan was begun, including the subject of Presidential succession planning
- National Mobility
  - The Territorial Mobility Agreement was signed by the Presidents of the Federation's member law societies

The theme of the Conference was Discipline: Understanding Today's Risks and Preparing for Tomorrow's Challenges: The focus was on proactive approaches to discipline. The Law Society's Chief Legal Officer, Deborah Armour, gave a presentation on the LSBC Sanctioning Guidelines Project. CBA President Fred Headon spoke and dealt with three topics:

- discontinuance of the CBA Code of Ethics because of the success of the Model Code
- continuing cooperation between the CBA and the Federation and its members on Access issues
- request for Federation input into the CBA Future s Project as it looks at Regulation of the profession.

## **5. Report on the Outstanding Hearing & Review Reports**

Written reports on outstanding hearing decisions and conduct review reports were received and reviewed by the Benchers.

## DISCUSSION/ DECISION

### 6. Trinity Western University Proposed School of Law

Ms. Lindsay opened the discussion by noting that the Benchers of the Law Society of BC were being asked to determine whether Trinity Western University's proposed School of Law is an approved faculty of law for the purposes of the Law Society's admissions program. She reviewed the history of the matter and then outlined the procedure to be followed in the discussion of the motion, notice of which was circulated to the Benchers at their February 28 meeting and then provided to TWU.

Mr. Walker moved (seconded by Mr. Crossin) that the Benchers adopt the following declaration:

*Pursuant to Law Society Rule 2-27(4.1), the Benchers declare that, notwithstanding the preliminary approval granted to Trinity Western University on December 16, 2013 by the Federation of Law Societies' Canadian Common Law Program Approval Committee, the proposed School of Law of Trinity Western University is not an approved faculty of law.*

In the ensuing discussion a number of Benchers spoke for or against the motion.

A number of Benchers who spoke for the motion indicated that they found the provision of the covenant requiring that TWU "community members voluntarily abstain from ... sexual intimacy that violates the sacredness of marriage between a man and a woman" (the Community Covenant) to be discriminatory, and inconsistent with the Law Society's mandate set out in [s. 3\(a\) of the Legal Profession Act](#).

A number of Benchers who spoke against the motion indicated that they did so reluctantly: having concluded that the determinative Canadian law remains as stated by the Supreme Court of Canada in [Trinity Western University v. BC College of Teachers](#) (2001 SCC 31); and without approving or supporting the provision of the Community Covenant.

A number of Benchers who spoke against the motion encouraged TWU to remove the offending words of the Community Covenant, and to consult with other BC legal institutions regarding the language of the Community Covenant and its application to the faculty and students of the proposed TWU School of Law

At the conclusion of the discussion, Ms. Lindsay re-read the motion and called for a vote by show of hands.

The following Benchers voted for the motion: Mr. Arvay, Mr. Lloyd, Mr. Maclaren, Ms. Matthews, Ms. Ongman, Ms. Rowbotham and Mr. Ward (7 votes).

The following Benchers voted against the motion: Mr. Acheson, Ms. Cheema, Mr. Corey, Mr. Crossin, Ms. Dhaliwal, Mr. Doerksen, Mr. Fellhauer, Mr. Ferris, Mr. Finch, Ms. Kresivo, Mr. Lawton, Mr. Meisner, Ms. Morellato, Mr. Mossop, Mr. Petrisor, Mr. Richmond, Mr. Riddell, Mr. Van Ommen, Mr. Walker and Mr. Wilson (20 votes).

The motion was defeated (7 for and 20 against).<sup>1</sup>

There being no further business, Ms. Lindsay declared the meeting terminated.

WKM  
2014-04-23

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<sup>1</sup> Ms. Lindsay announced the result as “6 for and 20 against” but the confirmed tally is “7 for and 20 against.”



# Minute of Email Approval

## Benchers

Date: Thursday, May 01, 2014

### Approval of Time and Place of Special General Meeting

On April 30, 2014 President Jan Lindsay, QC sent an email to the Benchers. Ms. Lindsay's message included the following information:

As you'll know from my last email update about the special general meeting, we require a formal resolution from the Benchers to set the time and places for the meeting. Staff have now been able to confirm appropriate places on June 10 for the main and satellite locations at which we propose to hold the special general meeting. As with our annual general meetings, we plan to start the meeting at 12:30 pm with registration at each location to begin at 11:45 am.

As there is some urgency in settling the logistics of this general meeting given the limited amount of time before it must be held, I would therefore ask you to provide your vote by reply email in respect of the following resolution [the Motion] as soon as you are able:

*BE IT RESOLVED that a written request for a special general meeting stating the nature of the business that is proposed to be considered for the meeting, and signed by 5 percent of the members of the Society in good standing having been delivered to the Executive Director, the Benchers determine that the special general meeting shall be held on June 10 commencing at 12:30 in the following places:*

Vancouver  
Castlegar  
Cranbrook  
Dawson Creek  
Kamloops  
Kelowna  
Nanaimo  
Prince George  
Prince Rupert

Smithers  
Surrey  
Terrace  
Victoria

Section 6(3) of the *Legal Profession Act* provides that a motion assented to in writing by at least 75% of the Benchers has the same effect as a resolution passed at a regularly convened meeting of the Benchers.

### **Email Authorization**

By 10:00 am, Thursday, May 1, 2014, 27 Benchers (90%) had assented to the Motion by email.

The Motion was carried.

WKM  
2014-05-01



# Memo

To: Benchers  
From: Jan Lindsay, QC, Ken Walker, QC and Jeff Hoskins, QC  
Date: April 16, 2014  
Subject: **Review of Law Society Tribunals**

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1. In 2010, the Benchers adopted a number of changes to the way that the Law Society conducts the credentials and discipline hearing processes. Later, changes were made to the way that hearing panel decisions are reviewed. The majority of the changes came into effect near the end of 2011 and the beginning of 2012.
2. In adopting the changes, the Benchers also decided that there should be a review of the new way of doing things after three years. Those three years will come to a conclusion around the end of this year. This memo is to propose a means of conducting the review that the Benchers mandated for that time. If the Benchers agree, we ask that you adopt the resolution that appears on page 3, paragraph 13 of this memorandum.

## REVIEW OF LAW SOCIETY TRIBUNALS 2014

### Background

3. The Task Force Examining the Separation of Adjudicative and Investigative Functions of the Benchers reported to the Benchers in July 2010. The Benchers adopted the task force's recommendations and terminated the task force. The minute of the Bencher discussion and resolution is attached, along with the report.
4. The Benchers accepted the recommendations, including a review of the process after a three-year trial period. The steps that were mandated at that time and refined over the ensuing months were generally considered incremental steps to be reconsidered and possibly added to at the end of the three years.

5. The most significant change adopted by the Benchers was the change in hearing panels consisting entirely of Benchers and former Benchers to a combination of a current lawyer Bencher chair together with one non-Bencher lawyer and one non-lawyer public representative. The Benchers also established requirements for training of all adjudicators
6. To establish pools of qualified panel members, a Bencher working group was struck, chaired by Gavin Hume QC. Under the direction of the working group, advertisements were placed separately for expressions of interest from lawyers and members of the public. In total, more than 700 applications were received and considered. Criteria for appointment were established in consultation with the working group and senior staff, and an independent objective consultant firm was retained to apply the criteria and make recommendations for appointments.
7. The Benchers delegated the final decision for appointments to the tribunal pools to the Executive Committee. The Executive Committee accepted recommendations of the consultants to fill the number of positions in each of the pools as recommended by the working group.
8. The pools were established accordingly: all current elected Benchers, who chair hearing panels; 25 lawyers who are not current Benchers, but including several Life Benchers; and 25 public representatives, including appointed Benchers. Once the members of the pools had received the training mandated by the Benchers, they began to sit on hearing panels.
9. As a result of the size of the pools, individual adjudicators in the categories of non-Bencher lawyers and non-lawyers only sit on one or two hearings per year. Current elected Benchers participate considerably more frequently because the pool for Benchers for a particular matter is reduced by the guidelines for appointment. For example, members of the Discipline Committee do not adjudicate disciplinary matters and members of the Credentials Committee do not adjudicate credentials matters. Also, some Benchers have chosen not to complete the required training program.
10. A further reform has seen the replacement of Bencher reviews with reviews by review boards. This required amendments to the *Legal Profession Act* and is still in the transition period. Under the new regime, rather than seven or more Benchers, reviews of hearing panel decisions are heard by a review board comprising seven members of the hearing panel pools, obviously not including the panellists whose decision is under review. The review board is chaired by a current elected Bencher and comprises two more Benchers, two non-Bencher lawyers and two public representatives who are not Benchers.
11. We attach the protocol for appointment of hearing panels for your information.

## RESOLUTION

12. We now propose the resolution below in order to implement the intention of the Benchers to conduct a review of the reforms to the Law Society tribunal system after three years, and that changes for improvement and correction of problems be recommended, and possible further reforms be considered.

13. This is the proposed resolution:

BE IT RESOLVED to form a task force of Benchers and others to

- review the progress of the changes to the tribunal system implemented since 2011;
- recommend changes for the improvement of the system and correction of any problems;
- identify any further reforms that the benchers should consider at this time;
- report to the Benchers as soon as possible, and in any event before the end of 2014.

## ISSUES

14. What follows are the issues, in no particular order, that have occurred to us would be appropriate for the task force to consider and report on to the Benchers. We consider that the task force should be free to investigate the system as it finds it and not be bound by this list of issues. However, we offer the list for the information of the Executive Committee and the Benchers and in the hope of being helpful to the task force.

15. **What have been the cost implications of the new system?** The Benchers felt that the inclusion of non-lawyers as hearing panellists required the Law Society to make some payment to non-lawyers in recognition of their contribution to a profession not their own. Non-lawyers are paid a per diem for hearing days. There have also been significant costs in the training program and in the recruitment programs.

16. **Panellist who cannot continue with hearing.** Under the current rules, each hearing panel must be chaired by a lawyer who is a current Bencher when the panel is appointed. If that lawyer cannot continue to the end of the hearing, administrative law principles would not allow him or her to be replaced mid-hearing, so a new panel must be struck and the hearing started over. Since a panel must have an odd number of panellists, if one of the “wingers” is



unable to continue, the hearing can continue with just the Bencher chair, and the other non-Bencher must be dismissed.

**17. What surveying and consultation required.**

**18. What do other law societies in Canada and other professional regulators in British Columbia do?**

**19. What should be the size of the non-Bencher and non-lawyer pools be going forward?**

As noted, the non-Bencher members of the pool only sit once or twice a year. Is that an appropriate use of the resources that the Law Society and the individuals concerned put into training and keeping up?

**20. What degree of turnover and continuity should there be in the hearing panel pool?**

There has been little natural attrition of the pools, and a major turnover in the elected Benchers.

**21. How do we determine who is renewed at the end of a term appointment and who is not?**

**22. What mechanism should there be to review the performance of panellists?**

**23. How might a panellist who is not suited be removed from the pool?** We have been lucky so far, but even with very careful recruiting, problems could arise in the future. Should we anticipate and provide for that eventuality with a removal process?

**24. If new members of the pools are to be recruited, what is the method of recruiting, assessing and appointing members to be?** The initial recruitment process was expensive and time-consuming and, at the same time, because of the volume of applications, not as rigorous as it might otherwise have been in some respects.

**25. Does the appointment protocol need to be changed?** The current method is based on a rotation of each of the pools, with room for some adjustment in extraordinary circumstances. There are some rules that call for panellists to be passed over, basically to avoid conflicts and the appearance of conflicts. Are the current guidelines effective? Are there other considerations?

**26. Should there be periodic events (or other means) to promote collegiality among members of the pools?** When the current pools were appointed, the Benchers hosted a dinner for all members of the various pools together. They also had the opportunity to mix with other panellists in the training program. Since then, we have instituted mandatory annual refresher courses. Is there a place for further social gathers or other events?

27. **Does the process proceed as a stepped or incremental process? If so, what next?** The task force should be free to have a wide-ranging discussion in this area, but the following two items are examples of the sorts of topics that should be considered.
28. **Should Benchers continue to be involved in hearing/review process?** Some other law societies have completely separated the adjudication process from the Benchers' legislative, investigative and prosecutorial functions.
29. **Should the President continue to appoint hearing panels and review boards?** Other law societies have also assigned the appointment power to someone not associated in any way with the disciplinary side of the institution.

Attachments: Bencher minute July 2010  
Report  
Protocol

JGH

# THE LAW SOCIETY OF BRITISH COLUMBIA

## MINUTES

**MEETING:** Benchers

**DATE:** Friday, July 9, 2010

<b>PRESENT:</b>	Glen Ridgway, QC, President	Benjimen Meisner
	Gavin Hume, QC, 1 <sup>st</sup> Vice-President	David Mossop, QC
	Bruce LeRose, QC, 2 <sup>nd</sup> Vice-President	Suzette Narbonne
	Haydn Acheson	Thelma O'Grady
	Satwinder Bains	Lee Ongman
	Kathryn Berge, QC	Gregory Petrisor
	Joost Blom, QC	David Renwick, QC
	Patricia Bond	Claude Richmond
	Robert Brun, QC	Alan Ross
	E. David Crossin, QC	Catherine Sas, QC
	Tom Fellhauer	Richard Stewart, QC
	Leon Getz, QC	Herman Van Ommen
	Carol Hickman	Art Vertlieb, QC
	Stacy Kuiack	Kenneth Walker
	Peter Lloyd, FCA	

<b>ABSENT:</b>	Rita Andreone	Jan Lindsay, QC
	David Loukidelis, Deputy Attorney General of BC	

<b>STAFF PRESENT:</b>	Tim McGee	Michael Lucas
	Deborah Armour	Bill McIntosh
	Andrea Brownstone	Jeanette McPhee
	Stuart Cameron	Doug Munro
	Robyn Crisanti	Lesley Pritchard
	Lance Cooke	Susanna Tam
	Charlotte Ensminger	Alan Treleaven
	Su Forbes, QC	Adam Whitcombe
	Jeffrey Hoskins, QC	

### 7. Separation of Functions Task Force: Report and Recommendations

Task Force Chair Ken Walker briefed the Benchers. Mr. Walker reviewed the task force's research, and noted [that](#) notwithstanding judicial authority for the current model of adjudication, the public could well perceive an apparent conflict between the Benchers' adjudicative and investigative roles. Mr. Walker stated that the task force believes that in the future a complete separation of the two roles would be advisable (i.e. no current Benchers will serve on hearing panels). He reported that at this stage the task force is recommending as 'the easiest first step' the creation of a pool of individuals who can be appointed to hearing panels that includes:

- sitting Benchers (the "Bencher pool")

- life Benchers, former lawyer Benchers and other lawyers, subject to meeting criteria to be established by the Benchers (the “lawyer pool”)
- life appointed Benchers, former appointed Benchers, and other non-lawyer non-Benchers, also subject to meeting criteria to be established by the Benchers (the “public pool”)

as outlined at pages 7007-7008 of the meeting materials. Mr. Walker informed the Benchers that the task force views an incremental approach as advisable, and recommends a review period of at least three years for monitoring the effectiveness of its recommendations, should the Benchers approve them.

Mr. Walker moved (seconded by Mr. Acheson) that the Benchers:

- adopt the Separation of Functions Task Force recommendations as set out at pages 7008-7009 of the meeting materials (Appendix 3 to these minutes) for implementation for a trial period of three years
- refer the Separation of Functions Task Force recommendations to the Act & Rules Subcommittee for consideration of the need for Rule changes to give their implementation proper effect

In the ensuing discussion a number of issues were raised, including:

- the importance of maintaining enough administrative flexibility during the trial period to ensure the timely population and convening of hearing panels
- whether, when and how to address the policy and budget issues of payment of honoraria to non-Bencher members of hearing panels
  - it was suggested that the inclusion of appointed Benchers and other non-lawyers on hearing panels would entail cost implications, which should be tracked during the trial period and assessed thereafter

The motion was carried.

Mr. Walker acknowledged the valuable service and support provided by Mr. Lucas to the Separation of Functions Task Force, and noted that with the adoption of its recommendations by the Benchers, the task force’s mandate has been discharged.

Mr. Walker moved (seconded by Mr. Acheson) that the Benchers terminate the Separation of Functions Task Force.

The motion was carried.

# The Law Society *of British Columbia*



## **Report of the Task Force Examining the Separation of Adjudicative and Investigative Functions of the Benchers**

**For: The Benchers**

**Date: July 9, 2010**

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Ken Walker  
Haydn Acheson  
David Crossin, Q.C.  
Ralston Alexander, Q.C.

**Purpose of Report:**

**Discussion and Decision**

**Prepared on behalf of:**

**The Task Force Examining the Separation of  
Adjudicative and Investigative Functions of the  
Benchers**

**Michael Lucas  
Manager, Policy and Legal Services  
604-443-5777**

## **Report of the Task Force Examining the Separation of Adjudicative and Investigative Functions of the Benchers**

### **Introduction**

In November 2008 the Benchers considered a Discussion Paper prepared by staff entitled “An Examination of Issues in Connection with the Dual Prosecutorial and Adjudicative Functions of the Benchers.” The Paper examined the policy considerations arising from the fact that the Benchers are responsible for investigating complaints and disciplinary matters as well as for adjudicating citations authorized arising from such investigations. The Discussion Paper examined arguments for and against separating the investigative and adjudicative functions of the Benchers, and compared the processes in the regulatory bodies of the legal profession in other jurisdictions, as well as the processes of regulatory bodies in other professions. After debate, the Benchers referred the issue to the Independence and Self-Governance Committee for review and recommendations.

In December 2009, the Independence and Self-Governance Committee presented its Report (the “Independence Committee Report”) to the Benchers. In that report, the Committee reviewed its discussion and analysis of the issue, and analysed various options for change. The Benchers resolved to create a Task Force to develop models for the separation of the Law Society’s adjudicative and investigative functions based on Option 1 in the Independence Committee Report, and to make recommendations on which model to adopt.

A Task Force was appointed, comprising Ken Walker as Chair, together with David Crossin, Q.C., Haydn Acheson and Ralston Alexander, Q.C. Jeff Hoskins Q.C. (Tribunals and Legislative Counsel) and Deborah Armour (Chief Legal Officer) also participated in meetings. Staff support was provided by Michael Lucas and Colette Souvage.

### **The Option Examined by the Task Force**

The Benchers, in their resolution in December 2009, directed the Task Force to examine Option 1 from Independence Committee Report, and to develop models based on that option for consideration by the Benchers. In Option 1, the Benchers would remain in control of the investigative process, and a separate body would be created for the adjudicative function.<sup>1</sup>

The Task Force therefore based its discussions on an examination of models where the investigative function of the Law Society would remain much as it is now. Decisions

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<sup>1</sup> The Independence Committee Report described three options. Option 2 contemplated the Benchers remaining in control of the adjudicative function with an outside body being responsible for investigations and prosecutions. In Option 3, the Benchers would have retained overall responsibility for both the investigative and adjudicative functions, but a more solid division of functions within the ranks of the Benchers would be established.

about whether to authorize the issuance of a citation would continue to be made by the Discipline Committee, and Law Society counsel would continue to “prosecute” such matters essentially on the instructions of that Committee. Models were considered that would change the structure of hearing panels, so that such panels would no longer necessarily be made up of benchers, and might therefore be viewed as being more independent of the investigation of complaints undertaken by the Law Society.

The Task Force examined models from the legal profession elsewhere in Canada and in some of the other common law jurisdictions, including Australia, England and Wales, and New Zealand. It also examined models from other self-regulated professions in British Columbia, including the models recently implemented through the *Health Professions Reform Act*. What became very clear is that there is no uniform model of structuring discipline to separate it from the rule-making or investigative functions of a self-regulating body. It was also clear, however, that many of the self-regulating bodies are thinking about, or have already implemented models to effect, the separation of investigations from adjudications.

### **The Current Model**

When proposing new models for consideration, it is useful to review what the current situation is.

The *Legal Profession Act* is permissive on the issue of hearing panels. Section 41 provides:

**41** (1) The benchers may make rules providing for any of the following:

- (a) the appointment and composition of panels;
- (b) the practice and procedure for proceedings before panels.

The *Act* does not limit the benchers’ powers in this regard.

The Rules passed by the benchers pursuant to section 41 are set out in Rule 5-2. For the purpose of this Report, the important Rules are Rules 5-2(3) and (4):

- (3) A panel must be chaired by a Bencher who is a lawyer.
- (4) All Benchers, all Life Benchers and all lawyers are eligible to be appointed to a panel.

The Rules therefore allow all benchers (elected and appointed), all life benchers (elected and appointed), *and all lawyers* to be appointed to a hearing panel. Panels are appointed by the President although, in practice, the panels are chosen by the Hearing Administrator, and then approved by the President.

Current bencher policy, pursuant to a benchers’ resolution dated October 3, 1997, limits who can be appointed to hearing panels to benchers, life benchers and former lawyer

benchers (including attorneys general), providing (in the case of lawyers) they are still practising members. Even with those limitations, 96 individuals are currently eligible for appointment, although 10 must be subtracted from Discipline Hearings as they sit on the Discipline Committee, and 8 must be subtracted from Credentials Hearings as they sit on the Credentials Committee. It is, however, less common that a life or former lawyer bencher is appointed to a panel, and the only non-lawyers eligible are appointed benchers, or appointed life benchers, of which there are only 5.

### Legal Considerations

First of all, the Task Force has noted that the Court of Appeal in *McOuat v. Law Society of British Columbia* 2001 BCCA 104 provides some judicial support for the current overlap of investigative and adjudicative processes, at least in the context of credentials hearings. It is reasonable to extend the Court's reasoning to discipline hearings as well. Furthermore, as a result of the Supreme Court of Canada's decision in *Brosseau v. Securities Commission (Alberta)* [1989] 1 S.C.R. 301, no reasonable apprehension of bias will be presumed if legislation authorizes a certain degree of overlapping functions. As the *Legal Profession Act* gives the benchers the power to set rules providing for the appointment of panels, it is likely that the legislation has contemplated that the resulting rules will permit the benchers to appoint themselves to panels and thus the overlapping functions of rule-making (authorized by the *Act*), investigative functions (also authorized by the *Act*) and adjudicative function should be permissible.

Despite apparent judicial authority for the current model, the Task Force recognizes that, while there appears to be little public concern with the current overlap of functions, public confidence in the process is important, and that a lack of public confidence in Law Society investigative or adjudicative processes could cause the government to consider legislative changes as has happened with the Health Professions.

At the same time, however, in order to be an effective self-regulator the Law Society must have the confidence of those who it regulates. The reasons of the Manitoba Court of Appeal in *Re Law Society of Manitoba and Savino* (1983) 1 D.L.R. (4th) 285 (approved by the Supreme Court of Canada in *Pearlman v. Manitoba Law Society Judicial Committee* (1991) 84 D.L.R. (4th) 105) are important when considering the proper balance of regulation:

Our Legislature has given the benchers the right to pass rules and regulations as well as the right to enforce them. It would be ridiculous and lacking in common sense to call upon another body of men and women to hear and dispose of complaints of professional misconduct. Professional misconduct is a wide and general term. It is conduct which would be reasonably regarded as disgraceful, dishonorable, or unbecoming of a member of the profession by his well respected brethren in the group -- persons of integrity and good reputation amongst the membership.

No one is better qualified to say what constitutes professional misconduct than a group of practicing barristers who are themselves subject to the rules established by their governing body.

(emphasis in original)



The Task Force discussed the fact that lawyers elect benchers largely due to the confidence that lawyers have that those they elect are senior members of the Bar, skilled in practice, and are persons of integrity and good reputation – individuals who lawyers can be confident that, as adjudicators on disciplinary matters, they will impose the appropriate sanctions for misconduct in order to protect the reputation of the profession in the eyes of the public. Any model that would separate the function of investigation from that of adjudication should keep in mind the words of the Court in *Savino*.

### **Purpose of Proposing a New Model**

The Independence Committee Report speaks to the need to ensure public confidence in Law Society processes. One method of doing so is to create a model through which those who adjudicate hearings are more formally separated from those who decide whether there should be a hearing. Another method is to create a model that will utilize the non-lawyer appointed benchers in hearings, as is being done, to ensure that a voice from outside the profession is heard. Other reasons for considering new models include finding the best way to utilize Law Society resources, including finding a method that best ensures that panels are composed of individuals who are skilled and trained to conduct hearings, as well as knowledgeable in the subject matter of the hearing itself. The Task Force has kept these purposes in mind when considering models.

### **Current Use of Appointed Benchers and Non-Benchers on Panels**

As is currently permitted, life or former benchers are appointed to panels from time to time, and appointed benchers are also urged to sit on panels. During the four year period between 2006 and 2009, 103 panels were appointed. Of that number, 21 panels had an appointed bencher, and 30 had at least one life or former bencher.

### **Models Considered**

The Task Force focused its review of models on those that have been developed, or are being developed, in the legal profession in Canada. While models from other countries and professions were considered, the Task Force determined that examining what was being done in the legal profession in Canada was best. Models from other Commonwealth jurisdictions have raised concerns with the benchers about whether lawyer independence is compromised. The Task Force believes that those models are inconsistent with the rationale of lawyer self-regulation explained in *Savino*.

The models of most interest to the Task Force were from the Atlantic provinces and Ontario.

The Atlantic provinces have all adopted models that more clearly formalize the distinction between investigations and adjudication. For example, Nova Scotia and New Brunswick each have a separate “hearing committee” from which panels are appointed. In Nova Scotia, legislation requires that the hearing committee must be non-benchers, while there is no such legislative prohibition in New Brunswick, although in practice benchers are not appointed to it. Panel appointments are made by the Chair of the committee (in Nova Scotia) and by the Registrar of Complaints (in New Brunswick).

Ontario developed a model, on the recommendation of a Task Force on Tribunals Composition in 2007, that requires non-lawyer members to be appointed to each panel. The Hearing Committee, from which appointments to panels are made, comprises all 81 Benchers (subject to disqualifying conflicts). Each panel must have a non-lawyer member. Because there are only 8 non-lawyer benchers in Ontario, changes to the Law Society Act in 2007 permitted the appointment of 4 additional non-lawyer non-benchers to the Hearing Committee to ensure a large enough pool of non-lawyers. The Law Society of Upper Canada identifies who these non-lawyers should be, but they must be approved by the Attorney General. The Law Society also appoints four non-bencher lawyers to the Hearing Committee. They are chosen to improve expertise in adjudication. In the result, the Hearing Committee is not a separate entity from the Law Society, and in fact the chances of a panel being comprised of three benchers is relatively high. There is however a more formal separation at the stage of deciding who will be appointed to a panel. This decision is made by the “Tribunals Office”, a department within the Law Society but whose staff and functions are independent of all other functions at the Society.

### **Discussion of Possible Models**

The Task Force reviewed three aspects in its consideration of models through which a separation of functions could be developed.

First of all, one has to decide what degree of separation ought to be implemented. Should there be a complete separation, where all the adjudicators on panels come from outside the Law Society? Or should it be a partial separation where some percentage of each panel (a majority or minority) comes from outside the organization? Should the “adjudicator body” be formalized as a body separate from the Law Society with its own Chair, or can it be simply a group of people the Law Society has determined ought to be adjudicators?

Second, one needs to determine how the adjudicators are to be chosen. How is the group of people that will make up hearing panels to be appointed? What criteria ought to be necessary? Should they be benchers, former benchers, life benchers or others, and if others, what qualifications would be needed? The appointments themselves could be by the benchers, or they could be made by various “stakeholder groups” within the legal profession (such as the Law Society, Canadian Bar Association, the Courts, the Attorney General, etc.) They could even be elected in separate elections (although the Task Force wondered how this would be accomplished for non-lawyers should there be a decision to ensure participation by non-lawyer adjudicators). There could be an outside body created to make or recommend appointments, along the model of the judicial councils.

The third item that needs to be determined is how the adjudicators are actually appointed to the hearing panels. Should they continue to be appointed by a Law Society official (currently they are appointed by the President) or should the Chair of the adjudicator group (assuming one has been appointed) be given that responsibility? Or should an independent office within the Law Society be created along the model of the Law Society of Upper Canada?

After some thought, three models were reviewed.

### Model 1

This model would create a formalized “Hearing Committee” and members to it would be appointed by an appointments committee comprised of the major stakeholders in the legal profession based on criteria established by that group. Members of the Hearing Committee would elect a Chair, and the Chair would make appointments to hearing panels as necessary. Policies or rules could require that a non-lawyer adjudicator be appointed to each panel.

### Model 2

A formalized “Hearing Committee” would be created and members to it would be appointed by the benchers, comprising members identified from for example, the following categories:

- benchers
- former (including life) benchers and eligible (qualified) non-bencher lawyers based on criteria to be determined
- former (including life) appointed benchers and eligible (qualified) non-lawyer non-benchers based on criteria to be determined.

Appointments to hearing panels would be made from this group, either by a Chair elected by the group (the most formalized separation model) or by a Law Society official such as the President (through which there would be a less formalized separation of functions). Ideally, the panel would be made up of one member from each category.

### Model 3

The benchers would establish criteria for prospective adjudicators, particularly non-lawyer adjudicators, and then identify appropriate members from, for example, the categories set out in Model 2

This model would create an informal “hearings pool” from which it would be resolved that appointments to panels could be made, probably by the President, although the LSUC model of an independent Tribunals Office could also be implemented. Again, ideally, the panel would be made up of one member from each category.

The Task Force agreed that if one wanted to demonstrate the maximum degree of independence between investigations and adjudications, Model 1 should be recommended. However, the Task Force also agreed that while such a model may be one that the Law Society might eventually need to move to in the future, it represented a significant departure from the current process. Evidence suggests the current model

works relatively well, utilizing both benchers elected by lawyers for the very reason that they are senior, skilled lawyers of high ethical and professional standards who will act, as adjudicators, to protect the public interest and the profession's reputation with the public, and appointed benchers who bring a visible public face to the adjudicative process. The current model accords with the rationale for self-governance described in cases such as *Pearlman* and *Savino*. Leaping from the current model toward a model that effectively sets up a separate regulatory adjudicative Committee is, in the Task Force's opinion, too great a leap, one that is not recommended at this time given a lack of any particular identifiable public concern with the current model.

The Task Force next considered whether a recommendation should be made to move *toward* a model of greater separation, through which other identifiable goals might be realized in the meantime. Would it make sense to develop a process that would increase the number of qualified adjudicators, including non-lawyers, available to sit on hearing panels? The Independence Committee Report identified the efficient use of resources as a possible benefit that might arise from some separation of investigative and adjudicative functions. With longer hearings becoming more frequent, together with a proclivity for more specialized subject matters, strains are placed on the current benchers. Moreover, if "transparency" (which the Task Force interprets to mean including views from outside the profession on the issue of lawyer regulation) of processes is desirable, it could be advantageous to create a model that would ensure that a non-lawyer adjudicator is part of the hearing panel wherever it is appropriate to do so. However, as there are only at most 4 appointed benchers available for hearings (as two sit on the Discipline Committee and are conflicted from sitting on citation hearings and up to two sit on the Credentials Committee and are conflicted from sitting on admission hearings), one would need to identify more non-lawyers qualified to sit on panels. Life appointed-benchers are available to sit on panels, and as time progresses, more of those individuals should exist.

Models 2 and 3 might be categorized as steps toward Model 1, with Model 2 being a little farther along the line because it would formalize the "hearing body" and that model could permit it to take responsibility for hearing panel composition. Model 3 would be the easiest first step toward separating the adjudicative function from the rest of the Law Society's processes, as it would simply require a rule change authorizing the appointment of non-lawyers other than life or life-appointed benchers.

### **Reviews of Panel Decisions**

"Reviews" of a decision by a hearing panel are referred to the benchers for a review on the record. Therefore, even if a decision is made to create a model that separates the adjudicative process even notionally from other Law Society processes, any reviews of a decision are statutorily required to return to the benchers, thereby defeating the effect of any separation that has been created between the adjudicative and the investigative process at the hearing panel stage.

A statutory requirement would be necessary to alter the current requirement for reviews, and the Task Force notes that the Benchers are currently considering whether to seek an amendment through which reviews would be heard by "review boards" rather than by the

benchers. The proposed amendment would authorize the benchers to make rules concerning the appointment of the review board. In this manner, the benchers can continue the current process of having reviews heard by the benchers, if they so desire, by making rules that would appoint the benchers to the review board. The amendment would also allow for more future latitude in the composition of review boards, including the appointment of other lawyers or even non-lawyers, should that course ever be desired as being in the public interest. The Task Force makes no recommendation in this regard.

## **Recommendation**

### **1. Individuals Qualified to Sit on Panels**

The Task Force recommends that a model based on Model 3 above be created at this time.

To accomplish this outcome, the Task Force recommends the following:

1. The Benchers resolve to create a pool of individuals who can be appointed to hearing panels.
2. The Task Force recommends that this pool include
  - sitting benchers (the “bencher pool”)
  - life and former lawyer benchers and other lawyers, subject to meeting criteria to be established by the Benchers (the “lawyer pool”); and
  - life and former appointed benchers, as well as non-lawyer non-benchers also subject to meeting criteria to be established by the Benchers (the “public pool”).<sup>2</sup>

There are several methods through which non-lawyer non-benchers could be identified for inclusion in the public pool, and if the Task Force recommendation is approved, the benchers will need to consider this issue. For example:

- Benchers themselves could recommend individuals from their region of the province, although appointments through this method might be criticized as being associated too much with the organization.
- Advertisements could be published for non-lawyers to sit on hearing panels and candidates could be chosen on the basis of the criteria established.<sup>3</sup>

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<sup>2</sup> The Task Force does not propose to make any recommendations about what the criteria should be for lawyers or for non-lawyers.

<sup>3</sup> This is a model recently introduced in Manitoba. The weakness of the Manitoba model, in the view of the Task Force, is that the candidates are chosen *by the Law Society* from those who applied. If advertisements are to be considered, some more formalized method of choosing candidates may have to be created.

- The Law Society could identify adjudicators from some of the other self-regulatory colleges or professions in the province, and invite them to be included in the hearing pool if they otherwise meet the criteria established by the Benchers.<sup>4</sup>

The Task Force notes that the Law Society takes a “hands-off” approach to the issue of who the government should appoint as appointed benchers, and strongly believes that a similar “hands-off” approach should be taken to the appointment of non-bencher non-lawyers to the public pool. For that reason, the Task Force is attracted to a model by which other professional regulatory bodies would be approached to identify an adjudicator to be included in the public pool. Such adjudicators are already chosen, often by government, and the Law Society would not therefore have to identify or assess such individuals itself. The Task Force has not assessed whether this model is feasible, however, but does believe it is especially worth considering.

## **2. Appointments to Hearing Panels**

The Task Force reviewed both the initial Discussion Paper and the Independence Committee Report and noted that the efficient use of resources and the ability to increase the public involvement in the adjudication process were central to the discussion.

After discussion, the Task Force concluded that the model proposed above creates a pool that can be filled with individuals that permit expertise, experience and public input to be appointed to panels. Benchers are elected in part because they are senior members of the Bar, skilled in practice, and are persons of integrity and good reputation and who will impose the appropriate sanctions for misconduct in order to protect the reputation of the profession in the eyes of the public. Other lawyers can be identified for skills that can be identified through the criteria for appointments created by the Law Society. Non-lawyers can also be identified for skills identified through the criteria established, and also for the additional public face that can be brought, through them, to panels.

The Task Force therefore recommends that when panels are appointed, one member is chosen from the bencher pool, one from the lawyer pool, and one from the public pool. There may be exceptional reasons to stray from this formula (such as where a delay to the appointment of a panel would exist due to difficulties in finding an available member within one of the pools), and the Task Force therefore does not recommend that this appointment method be formalized at this time. For the time being, the Task Force recommends that appointments from the available “pool” to a particular panel be made formally by the President.

## **3. Effect of Recommendations**

The Task Force has concluded that the recommendations made through the model proposed above will meet the objectives of the resolution passed by the Benchers in December 2009. In order to accomplish this end, the Rule 5-4 will need to be amended

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<sup>4</sup> The Law Society of Upper Canada has used this approach to identify the non-lawyer, non-benchers that legislation allows to be appointed to hearing panels in Ontario.

to permit former (but not yet life) appointed benchers and non-lawyers to be eligible to be appointed to panels. Consideration will need to be given about whether to make the processes for how panels are comprised to be part of the rules or simply a policy.

While the proposed model admittedly does not *fully* separate the adjudicative process from the rest of the Law Society's functions, it *functionally* separates them because benchers will no longer form the entirety of the panel hearing a case the citation for which has been authorized by the Chair of the Discipline Committee on the recommendation of that Committee. The majority of the panel will *not* be part of the Law Society. Two out of the three panel members will not be existing regulators. One of the members of the panel will be a member of the public. The continuance of a bencher member is a recognition of the value that is brought by having a senior member of the profession skilled in practice and ethics on the panel, in recognition of the decision in *Pearlman* and *Savino*. At the same time, the experience and expertise of other lawyers will be available to the panel, and the public interest will at all times be more clearly recognized by ensuring a non-lawyer participant sits on the panel.

The Task Force recognizes that a process that requires the President to make the formal appointments to particular hearing panels further compromises the separation of the adjudicative function from that of investigations. However, if the President's involvement is merely administrative, and the actual appointment is made through some other process (perhaps a roster system, such as that established in *McOuat* , or some other process to be created), the compromise becomes of less concern.

There may be costs associated arising from the recommendation of the Task Force. It may, for example, be necessary to compensate non-bencher members of panels for their work as adjudicators, and that has not been factored in to the recommendation.<sup>5</sup> The Task Force believes that cost should not be a consideration as to whether the proposed recommendation should be accepted, and that a policy decision should be made by the benchers on the merit of the proposal. Costs would be better considered when deciding whether to implement the recommendation.

### **Measuring the Effectiveness of the Recommendation**

The recommendation, if implemented, should be allowed to operate for at least a three year period. The Task Force expects that, while the panels would be more autonomous from the Law Society, there would still be some capacity for operational requirements to be placed on panels. In particular, the current directive that decisions be rendered within 60 days should continue.

After a three year period, the Law Society should review the subject to determine whether the process works effectively from a regulatory, as well as from a public interest, point of view. For example, the Law Society should determine at least the following:

- whether decisions are released and

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<sup>5</sup> The Law Society of Upper Canada pays its non bencher members of hearing panels \$500.00 per day of hearing.

- whether panels can be comprised

at least as quickly, on average, as they are at present.

### **Next Steps**

If the Benchers resolve to approve the recommendation of the Task Force, the Task Force recommends that the matter be sent to the Act and Rules Subcommittee for consideration concerning what necessary rule changes are required.

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## **PANEL AND REVIEW BOARD APPOINTMENT PROTOCOL**

Under the Law Society Rules, the appointment of hearing panels and review boards is in the discretion of the President. This protocol sets out guidelines for the exercise of that discretion, based on Benchers resolutions and operational practice.

1. Each hearing panel is chaired by a Bencher who is a lawyer and includes two members of the hearing panel pool:
  - one lawyer who is not a current Bencher, and
  - one person who is not a lawyer.
  
2. Each review board is chaired by a Bencher who is a lawyer and includes two additional Benchers and four members of the hearing panel pool:
  - two lawyers who are not current Benchers, and
  - two people who are not lawyers.
  
3. When a current Appointed Bencher is appointed to a review board, he or she is considered a Bencher, and two others will be appointed from the non-lawyer roster of the hearing panel pool. No more than one current Appointed Bencher will be appointed.
  
4. The hearing administrator maintains three rosters:
  - a roster of current lawyer Benchers who qualify to chair hearing panels and review boards;
  - a roster of non-Bencher lawyers who are members of the hearing panel pool; and
  - a roster of non-lawyer members of the hearing panel pools, including current Appointed Benchers.

5. When a member of the hearing panel pool or a lawyer-Bencher completes the required training courses, his or her name is added to the bottom of the appropriate roster.
6. The required courses are as follows:
  - for all panellists, the introductory course on administrative justice and any annual updates required by the Benchers;
  - for all lawyers, the decision-writing workshop; and
  - for all lawyer Benchers, the hearing skills workshop;
7. When a hearing panel or review board is to be appointed, the hearing administrator determines the highest member(s) on each roster who
  - is not disqualified under Rule 5-3(1) or (2);
  - is not a member of the Committee that ordered the hearing, either at the time the hearing was ordered or at the time of the hearing;
  - has not had previous dealings with the respondent or applicant that could give rise to a reasonable apprehension of bias;
  - is not the subject of a complaint investigation or discipline matter;
  - is available on the hearing dates.
8. Before being appointed to a review board, a member of the hearing panel pool or a Bencher must have completed at least one hearing as a member of the hearing panel.
9. The President establishes hearing panels composed of the three pool members under clause 1, and review boards composed of seven pool members under clauses 2 and 3.
10. The President may appoint members of the pool out of order in a case that, in the President's opinion, requires special skill, expertise or experience.
11. When a member of the pool is appointed to a hearing panel or review board, his or her name goes to the bottom of the appropriate roster. If the hearing or review does not

proceed, or if the pool member does not begin the hearing or review, for any reason, he or she may request that his or her name be returned to the top of the roster.

12. If a pool member at the top of a roster is not available for three or more consecutive hearings panels or review boards, the President may direct the hearing administrator to place the pool member's name at the bottom of the appropriate roster.
13. The hearing administrator keeps a complete record of the appointment process for each hearing panel or review board.
14. Pool members and Benchers may enquire of the hearing administrator as to where they stand on the applicable roster.



# Memo

To: Benchers  
 From: Executive Committee  
 Date: April 24, 2014  
 Subject: **1. Legal Services Society Board of Directors; 2. Vancouver Foundation Board of Directors**

This memorandum confirms the Executive Committee's endorsement of the Appointments Subcommittee's recommended advice to the Benchers in these matters. Both recommendations are for renewal of current appointments: former Bencher Suzette Narbonne as a director of the Legal Services Society; and Life Bencher Anna Fung, QC as a director of the Vancouver Foundation.

## 1. Legal Services Society Board of Directors

Body	Governing Statute/ Other Authority	Law Society Appointing Authority	Law Society Appointee/ Nominee Profiles
Legal Services Society ("LSS") Board of Directors	<i>Legal Services Society Act</i> (the Act) S. 4(3) of the Act	Law Society Benchers, after consultation with Canadian Bar Association of BC executive	4 Law Society members, as directors

Current Appointments	Term of Office	Date First Appointed	Expiry Date
Alison MacPhail	2 years per term, 3 terms max.	1/1/2014	12/31/2016
Thomas Christensen	2 years per term, 3 terms max.	9/7/2009	9/6/2015
Deanna Ludowicz	3 years per term, 2 terms max.	1/1/2009	12/31/2014
Suzette Narbonne	3 years per term, 2 terms max.	5/1/2011	4/30/2014

## **a. Background**

On April 30, former Benchers Suzette Narbonne will complete her first three-year term as a Law Society appointee to the LSS Board of Directors. LSS Board Chair Tom Christensen has written to Ms. Lindsay (Tab 1), confirming that Ms. Narbonne is prepared to continue her LSS board service, and recommending that she be re-appointed for a second three-year term:

I have spoken to Ms. Narbonne and she has advised me that she is prepared to accept a further three year appointment to the LSS Board. I am pleased to recommend that Ms. Narbonne's appointment be renewed.

Ms. Narbonne is an active member of the board, she was appointed Vice-Chair of the Board in September last year, is a member of the Executive Committee and current member of the Stakeholder Engagement committee. She brings the expertise and perspective of a seasoned practitioner to the board's deliberations and is a voice for the defence bar which is a significant asset to the society. She has demonstrated the commitment and the leadership necessary for the Society's success.

Mr. Christensen also noted the importance of board continuity to LSS governance, particularly over the next several years:

[T]here will be significant changes to the board membership as five of the current board members will have reached their maximum six year ceiling and will need to be replaced in 2015. In these circumstances the board feels that the reappointment of Ms. Narbonne would add an element of continuity that will support the board's commitment to effective governance of the Legal Services Society.

## **b. Recommendation**

We advise the Benchers to renew the appointment of Suzette Narbonne as a member of the Legal Services Society Board of Directors for a second term of three years, effective May 1, 2014 and following consultation with the CBABC executive.

## 2. Vancouver Foundation Board of Directors

Body	Governing Statute/ Other Authority	Law Society Appointing Authority	Law Society Appointee/ Nominee Profiles
Vancouver Foundation Board of Directors	<i>Vancouver Foundation Act</i> <i>Vancouver Foundation Amendment Act, 2010</i>	Law Society Benchers nomination  Vancouver Foundation Board of Directors appointment	1 Law Society member, as a director
Current Appointment	Term of Office	Date First Appointed	Expiry Date
Anna Fung, QC	3 year term, 2 terms max.	5/1/2011	4/30/2014

### a. Background

Life Bencher Anna Fung, QC will complete her first three-year term as a Law Society nominee to the Vancouver Foundation Board of Directors on April 30, 2014.

Board Secretary Dan Morin has confirmed by email (Tab 2) that the Vancouver Foundation board would be pleased to see Ms. Fung's re-nomination by the Law Society, and that Ms. Fung has confirmed her readiness to serve a second three-year term as a Vancouver Foundation director.

### b. Recommendation

We advise the Benchers to renew the nomination of Anna Fung, QC as a member of the Vancouver Foundation Board of Directors for a second term of three years, effective May 1, 2014.

April 11, 2014

Ms. Jan Lindsay, QC  
President  
**THE LAW SOCIETY OF BRITISH COLUMBIA**  
845 Cambie Street  
Vancouver, BC V6B 4Z9

Dear Ms. Lindsay:

**Re: Renewal of Suzette Narbonne's appointment for a further three year term to the Legal Services Society ("LSS") Board of Directors**

As you may be aware, Suzette Narbonne's appointment as a member of the board of the Legal Services Society ("LSS") is up for renewal this April 30, 2014. I have spoken to Ms. Narbonne and she has advised me that she is prepared to accept a further three year appointment to the LSS Board. I am pleased to recommend that Ms. Narbonne's appointment be renewed.

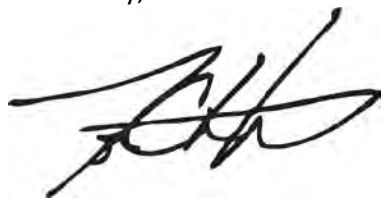
Ms. Narbonne is an active member of the board, she was appointed Vice-Chair of the Board in September last year, is a member of the Executive Committee and current member of the Stakeholder Engagement committee. She brings the expertise and perspective of a seasoned practitioner to the board's deliberations and is a voice for the defence bar which is a significant asset to the society. She has demonstrated the commitment and the leadership necessary for the Society's success.

As you know the Legal Services Society is facing significant challenges, demand for assistance is increasing and there is little prospect that LSS will receive any increase in our government funding to meet these challenges. In addition there will be significant changes to the board membership as five of the current board members will have reached their maximum six year ceiling and will need to be replaced in 2015. In these circumstances the board feels that the reappointment of Ms. Narbonne would add an element of continuity that will support the board's commitment to effective governance of the Legal Services Society.

I would be pleased to discuss this request with you further and trust that Law Society officials will not hesitate to contact me directly at [tom.christensen@nixonwenger.com](mailto:tom.christensen@nixonwenger.com); cell phone: 250.307.0433 or Mark Benton at [mark.benton@lss.bc.ca](mailto:mark.benton@lss.bc.ca); phone: 604.601.6137 with any questions they might have.

Thank you for your ongoing support and encouragement.

Yours truly,

A handwritten signature in black ink, appearing to be 'T. Christensen', with a stylized, flowing script.

Tom Christensen  
Chair – LSS Board of Directors

Cc: Caroline Nevin, Executive Director, CBA  
Mark Benton, Chief Executive Officer  
Bill McIntosh, Manager, Executive Support, The Law Society of BC  
Gulnar Nanjijuma, Assistant Corporate Secretary



**From:** [Dan Morin](#)  
**To:** [Bill McIntosh](#)  
**Cc:** [Kevin McCort](#)  
**Subject:** LSBC nominee on Vancouver Foundation Board of Directors  
**Date:** Wednesday, April 02, 2014 3:43:23 PM

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Hello Bill,

Thank-you for your time today. We are confirming that Anna Fung, the Law Society of BC's nominee on the Vancouver Foundation Board of Directors has completed her first three-year term and is eligible to fulfill her second and final three-year term which would end in May 2017. We further confirm both Ms. Fung and the Vancouver Foundation Board are in agreement of Anna's re-appointment for her second term.

The Vancouver Foundation Board of Directors will meet on Thursday, April 11 and Management will propose the Board approve Ms. Fung's second term contingent upon The Law Society's agreement. We understand The Law Society is required to vet this nomination through three of its committees and anticipate your response on or after May 9.

Bill – as an aside, Anna will be chairing an advisory committee on May 13, so this timing is ideal. If any delays occur do let us know as we'll then need to come up with a plan C.

Thanks,

Dan  
Board Secretary  
604-629-5355

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The Law Society  
*of British Columbia*



# Financial Report

December 31, 2013

Prepared for: Finance and Audit Committee Meeting – April 10, 2014  
Bencher Meeting – May 10, 2014

Prepared by: Jeanette McPhee, CFO & Director Trust Regulation



## **Financial Report – To December 31, 2013**

Attached are the draft financial results and highlights for the year ended December 31, 2013. The final 2013 financial statements will be reviewed and recommended for approval at the April 10<sup>th</sup> Finance and Audit Committee meeting and approved by the Benchers at the May 10<sup>th</sup> Benchers meeting.

### **General Fund**

#### **General Fund (excluding capital and TAF)**

The 2013 General Fund operations finished the year with a positive variance of \$442,000 (equates to 2% variance of the operating expense budget).

In 2013, there were additional PLTC student enrolment fees and additional penalties and recovery revenues, along with expense savings related to staffing costs and external forensic accounting fees, which was offset by additional professional fees related to case files. Additional details are set out below.

#### **Revenue**

Revenue was \$19,841,000, a positive budget variance of \$227,000 (1.2%) due to:

- PLTC revenues, a positive variance of \$107,000 with 442 students
- Additional penalties, fines and recoveries, a positive variance of \$119,000
- Membership revenue was close to budget, with practicing membership at 10,985 members, compared to a budget of 11,000
- Lease revenues were below budget \$38,000

#### **Operating Expenses**

Operating expenses were \$19,815,000, a positive variance of \$267,000 (1.3%).

There were operating expense savings relating to:

- Staff compensation costs below budget due to additional staff vacancy savings relating to vacancies in regulation, along with deferring filling vacant forensic accounting and policy positions - \$622,000
- Forensic accounting external fees below budget due to fewer forensic accounting files - \$145,000

Offsetting these savings were additional costs relating to:

- Additional regulation external counsel fees mainly due to resourcing issues with staff vacancies, in addition to a complicated conflict file and a discipline file with numerous issues raised by the respondent - \$178,000
- Additional Credentials investigations and professional fees - \$80,000
- CBA REAL initiative funding for 2013 - \$75,000

- Implementation of privacy recommendations - \$86,000
- Costs for additional PLTC students - \$50,000
- Update to the on-line courses - \$61,000
- Increased contribution to Access Probono – \$36,000

### **Net Assets**

The General Fund net asset balance (before capital allocation) is \$8.4 million, which is mainly invested in capital assets, including the 845 Cambie building.

Net assets also includes \$1.482 million in capital funding for planned capital projects related to the 845 building and workspace improvements for Law Society operations.

### **TAF-related Revenue and Expenses**

TAF results were below budget, with a negative budget variance of \$110,000 for the year. TAF revenue was \$2,166,000, \$234,000 below budget due to a reduction in Trust Administration Fees (TAF). This was very close to the 2012 revenue of \$2,158,000. Operating expenses savings of \$113,000 partially offset the shortfall.

The TAF deficit of \$110,000 was applied to the TAF reserve, which is now in a deficit position of \$39,000 at December 31, 2013. The TAF fee was increased to \$15 on January 1, 2014, to ensure the Trust Assurance Program is appropriately funded.

### **Special Compensation Fund**

The Special Compensation Fund net assets are \$1.287 million at December 31, 2013. After any remaining recoveries are concluded, the remaining Special Compensation Fund reserve will be transferred to the Lawyers Insurance Fund as required by the Legal Profession Amendment Act, 2012.

### **Lawyers Insurance Fund (LIF)**

LIF assessment revenues were \$13.9 million, \$185,000 (1.4%) over budget. Operating expenses (excluding the claims provision) were \$6.2 million, \$607,000 (9.0%) below budget. The expense savings are a result of staff vacancies, lower defalcation insurance costs and lower professional fees.

The provision for claims liability is \$52.2 million at year end, \$1.2 million (2.3%) over the 2012 provision of \$51 million.

The LIF investment portfolio performed very well in 2013, earning a return of 15.9%, compared to a benchmark of 11.8%. The market value of the LIF long term investment portfolio is \$114.6 million, an increase of \$15.7 million.

The LIF net assets are \$59.4 million at December 31, 2013, which includes \$17.5 million internally restricted for Part B claims, leaving \$42 million in unrestricted net assets.

Summary of Financial Highlights - Dec 2013  
(\$000's)

2013 General Fund Results - YTD Dec 2013 (Excluding Capital Allocation & Depreciation)

	Actual	Budget	\$ Var	% Var
<b>Revenue (excluding Capital)</b>				
Membership fees	16,304	16,312	(8)	0.0%
PLTC and enrolment fees	1,111	1,004	107	10.7%
Electronic filing revenue	816	835	(19)	-2.3%
Interest income	306	278	28	10.1%
Other revenue	1,304	1,185	119	10.0%
	19,841	19,614	227	1.2%
<b>Expenses before 845 Cambie (excl. dep'n)</b>	19,815	20,082	267	1.3%
	26	(468)	494	
<b>845 Cambie St. - net results (excl. dep'n)</b>	416	468	(52)	-11.1%
	442	-	442	

2013 General Fund Year End Results (Excluding Capital Allocation & Depreciation)

	Avg # of Members	Actual Variance
<b>Practice Fee Revenue</b>		
2008 Actual	10,035	
2009 Actual	10,213	
2010 Actual	10,368	
2011 Actual	10,564	
2012 Actual	10,746	
2013 Budget	11,000	
2013 Actual	10,985	
<b>Revenue</b>		
Membership Revenue - 15 members less than budget		(8)
PLTC - 42 students more than budget of 400		107
Electronic filing		(19)
Recoveries		75
Interest income		28
Miscellaneous		44
		227
<b>Expenses</b>		
Compensation savings - regulation/forensic accounting/policy vacancies		622
Forensic professional fees - fewer forensic accounting files		145
External Counsel - additional files		(178)
Credentials investigations and professional fees - additional files		(80)
CBA REAL 2013 contribution		(75)
Access Pro Bono - additional contribution re: 3rd floor space		(36)
PLTC - additional students		(50)
Update to online courses		(61)
Info & Privacy - privacy recommendations		(86)
Other savings		66
		267
<b>845 Cambie Building</b>		
Lease revenue vacancy		(38)
Other		(14)
		(52)
<b>2013 General Fund Actual Variance</b>		442
<b>2013 General Fund Budget</b>		-
<b>2013 General Fund Actual</b>		442

Trust Assurance Program Actual & Forecast

	2013 Actual	2013 Budget	Variance	% Var
<b>TAF Revenue</b>	2,166	2,400	(234)	-9.8%
Trust Assurance Department	2,276	2,389	113	4.7%
<b>Net Trust Assurance Program</b>	(110)	11	(121)	

2013 Lawyers Insurance Fund Long Term Investments - YTD Dec 2013 Before investment management fees

<b>Performance</b>	15.92%
<b>Benchmark Performance</b>	11.83%

**The Law Society of British Columbia**  
**General Fund**  
**Results for the 12 Months ended December 31, 2013**  
(\$000's)

	<b>2013 Actual</b>	<b>2013 Budget</b>	<b>\$ Var</b>	<b>% Var</b>
<b>Revenue</b>				
Membership fees (1)	18,229	18,248		
PLTC and enrolment fees	1,111	1,004		
Electronic filing revenue	816	835		
Interest income	306	278		
Other revenue	1,305	1,185		
<b>Total Revenues</b>	<b>21,767</b>	<b>21,550</b>	<b>217</b>	<b>1.0%</b>
<b>Expenses</b>				
Regulation	7,100	7,665		
Education and Practice	4,019	3,647		
Corporate Services	3,115	3,059		
Bencher Governance	1,692	1,667		
Communications and Information Services	2,005	2,050		
Policy and Legal Services	1,884	1,993		
Depreciation	373	359		
<b>Total Expenses</b>	<b>20,188</b>	<b>20,440</b>	<b>252</b>	<b>1.2%</b>
General Fund Results before 845 Cambie and TAP	1,579	1,110	469	
<b>845 Cambie net results</b>	<b>(104)</b>	<b>(296)</b>	<b>192</b>	
<b>General Fund Results before TAP</b>	<b>1,475</b>	<b>814</b>	<b>661</b>	
<b>Trust Administration Program (TAP)</b>				
TAF revenues	2,166	2,400	(234)	
TAP expenses	2,276	2,389	113	5%
<b>TAP Results</b>	<b>(110)</b>	<b>11</b>	<b>(121)</b>	
<b>General Fund Results including TAP</b>	<b>1,365</b>	<b>825</b>	<b>540</b>	

(1) Membership fees include capital allocation of \$1.925m (YTD capital allocation budget = \$1.936m).

**The Law Society of British Columbia**  
**General Fund - Balance Sheet**  
**As at December 31, 2013**  
(\$000's)

	Dec 31 2013	Dec 31 2012
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	179	672
Unclaimed trust funds	1,808	1,672
Accounts receivable and prepaid expenses	1,105	981
B.C. Courthouse Library Fund	505	2,487
Due from Lawyers Insurance Fund	22,211	19,402
	<u>25,808</u>	<u>25,214</u>
<b>Property, plant and equipment</b>		
Cambie Street property	12,721	11,382
Other - net	1,438	1,593
	<u>39,967</u>	<u>38,189</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	4,612	2,575
Liability for unclaimed trust funds	1,808	1,672
Current portion of building loan payable	500	500
Deferred revenue	18,971	18,225
Deferred capital contributions	47	58
B.C. Courthouse Library Grant	505	2,487
Deposits	16	29
	<u>26,459</u>	<u>25,546</u>
<b>Building loan payable</b>	<u>3,600</u>	<u>4,100</u>
	<u>30,059</u>	<u>29,646</u>
<b>Net assets</b>		
Capital Allocation	1,482	2,405
Unrestricted Net Assets	8,426	6,138
	<u>9,908</u>	<u>8,543</u>
	<u>39,967</u>	<u>38,189</u>

**The Law Society of British Columbia**  
**General Fund - Statement of Changes in Net Assets**  
**For the 12 Months ended December 31, 2013**  
(\$000's)

	<i>Invested in capital</i>	<i>Working Capital</i>	Unrestricted	Trust	Capital	2013	2012
	\$	\$	Net Assets	Assurance	Allocation	Total	Total
					\$	\$	\$
<b>Net assets - December 31, 2012</b>	8,376	(2,310)	6,066	72	2,405	<b>8,543</b>	<b>7,112</b>
Net (deficiency) excess of revenue over expense for the period	(1,165)	715	(450)	(110)	1,925	<b>1,365</b>	<b>1,431</b>
Repayment of building loan	500	-	500	-	(500)	-	-
Purchase of capital assets:							
LSBC Operations	310	-	310	-	(310)	-	-
845 Cambie	2,038	-	2,038	-	(2,038)	-	-
<b>Net assets - December 31, 2013</b>	<b>10,059</b>	<b>(1,595)</b>	<b>8,464</b>	<b>(38)</b>	<b>1,482</b>	<b>9,908</b>	<b>8,543</b>

***The Law Society of British Columbia  
Special Compensation Fund  
Results for the 12 Months ended December 31, 2013  
(\$000's)***

	<b>2013 Actual</b>	<b>2013 Budget</b>	<b>\$ Var</b>	<b>% Var</b>
<b>Revenue</b>				
Annual assessment	-	-		
Recoveries	55	550		
<b>Total Revenues</b>	<b>55</b>	<b>550</b>	<b>(495)</b>	<b>-90.0%</b>
<b>Expenses</b>				
Claims and costs, net of recoveries	-	71		
Administrative and general costs	27	50		
Loan interest expense	(33)	-		
<b>Total Expenses</b>	<b>(6)</b>	<b>121</b>	<b>(127)</b>	<b>-105.0%</b>
<b>Special Compensation Fund Results</b>	<b>61</b>	<b>429</b>	<b>(368)</b>	

***The Law Society of British Columbia***  
***Special Compensation Fund - Balance Sheet***  
***As at December 31, 2013***  
(\$000's)

	Dec 31 2013	Dec 31 2012
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	1	1
Accounts receivable	-	-
Due from Lawyers Insurance Fund	1,289	1,396
	<u>1,290</u>	<u>1,397</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	3	171
Deferred revenue	-	-
	<u>3</u>	<u>171</u>
<b>Net assets</b>		
Unrestricted net assets	1,287	1,226
	<u>1,287</u>	<u>1,226</u>
	<u>1,290</u>	<u>1,397</u>



***The Law Society of British Columbia***  
***Special Compensation Fund - Statement of Changes in Net Assets***  
***Results for the 12 Months ended December 31, 2013***  
(\$000's)

	<b>2013</b>	<b>2012</b>
	\$	\$
<b>Unrestricted Net assets - December 31, 2012</b>	1,226	932
Net excess of revenue over expense for the period	<u>61</u>	<u>294</u>
<b>Net assets - December 31, 2013</b>	<u><u>1,287</u></u>	<u><u>1,226</u></u>

**The Law Society of British Columbia**  
**Lawyers Insurance Fund**  
**Results for the 12 Months ended December 31, 2013**  
(\$000's)

	<b>2013 Actual</b>	<b>2013 Budget</b>	<b>\$ Var</b>	<b>% Var</b>
<b>Revenue</b>				
Annual assessment	13,900	13,715		
Investment income	15,636	3,507		
Other income	52	50		
<b>Total Revenues</b>	<b>29,588</b>	<b>17,272</b>	<b>12,316</b>	<b>71.3%</b>
<b>Expenses</b>				
<b>Insurance Expense</b>				
Provision for settlement of claims	14,095	12,641		
Salaries and benefits	2,431	2,797		
Contribution to program and administrative costs of General Fund	1,581	1,609		
Office	771	1,038		
Actuaries, consultants and investment brokers' fees	423	457		
Allocated office rent	148	148		
Premium taxes	8	9		
Income taxes	6	5		
	<b>19,463</b>	<b>18,704</b>		
<b>Loss Prevention Expense</b>				
Contribution to co-sponsored program costs of General Fund	809	721		
<b>Total Expenses</b>	<b>20,272</b>	<b>19,425</b>	<b>(847)</b>	<b>-4.4%</b>
Lawyers Insurance Fund Results before 750 Cambie	9,316	(2,153)	11,469	
<b>750 Cambie net results</b>	<b>292</b>	<b>340</b>	<b>(48)</b>	
<b>Lawyers Insurance Fund Results</b>	<b>9,608</b>	<b>(1,813)</b>	<b>11,421</b>	

***The Law Society of British Columbia  
Lawyers Insurance Fund - Balance Sheet  
As at December 31, 2013  
(\$000's)***

	Dec 31 2013	Dec 31 2012
<b>Assets</b>		
Cash and cash equivalents	24,440	23,225
Accounts receivable and prepaid expenses	766	936
Due from members	144	35
General Fund building loan	4,100	4,600
Investments	121,304	108,573
	<u>150,754</u>	<u>137,369</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	1,474	1,689
Deferred revenue	7,065	6,947
Due to General Fund	22,211	19,402
Due to Special Compensation Fund	1,290	1,396
Provision for claims	52,240	50,959
Provision for ULAE	7,045	7,155
	<u>91,325</u>	<u>87,548</u>
<b>Net assets</b>		
Unrestricted net assets	41,929	32,321
Internally restricted net assets	17,500	17,500
	<u>59,429</u>	<u>49,821</u>
	<u>150,754</u>	<u>137,369</u>

***The Law Society of British Columbia***  
***Lawyers Insurance Fund - Statement of Changes in Net Assets***  
***For the 12 Months ended December 31, 2013***  
(\$000's)

	Unrestricted \$	Internally Restricted \$	2013 Total \$	2012 Total \$
<b>Net assets - December 31, 2012</b>	32,321	17,500	49,821	44,266
Net excess of revenue over expense for the period	9,608	-	9,608	5,555
<b>Net assets - December 31, 2013</b>	<u>41,929</u>	<u>17,500</u>	<u>59,429</u>	<u>49,821</u>

The Law Society  
*of British Columbia*



## **Quarterly Financial Report**

March 31, 2014

Prepared for: Finance & Audit Committee Meeting – April 10, 2014  
Bencher Meeting – May 10, 2014

Prepared by: Jeanette McPhee, CFO & Director Trust Regulation

## **Quarterly Financial Report – First Quarter 2014**

Attached are the financial results and highlights for the first quarter of 2014.

### **General Fund**

#### **General Fund (excluding capital and TAF)**

The General Fund operations resulted in a positive variance of \$191,000 to March 31, 2014.

#### **Revenue**

Revenue is \$5,288,000, \$121,000 (2.3%) ahead of budget.

#### **Operating Expenses**

Operating expenses for the first quarter were \$4,256,000, \$70,000 (1.6%) below budget due the timing of costs in various areas.

#### **2014 Forecast - General Fund (excluding capital and TAF)**

We are forecasting the General Fund to be slightly ahead of budget for the year, projecting a positive variance of \$140,000, due to additional lease revenue and additional PLTC students.

#### **Operating Revenue**

Practicing membership revenue is budgeted at 11,190 members, and is expected to be close to budget. PLTC revenue is projected to be over budget, with 465 students, compared to a budget of 450.

Lease revenue will have a positive variance of \$100,000 for the year, with a new lease on the third floor of 835 Cambie and the renewal of the atrium café lease.

#### **Operating Expenses**

We are projecting operating expenses to be on budget at this time. It is projected that there will be additional compensation savings related to staff vacancies, but these savings will be offset by additional costs relating to the TWU application and higher than expected regulatory external counsel costs.

#### **TAF-related Revenue and Expenses**

The first quarter TAF revenue is not received until the April/May time period, so no revenue is recorded at this time.

**Special Compensation Fund**

Once any final recoveries are received, the remaining Special Compensation Fund reserve will be transferred to LIF.

**Lawyers Insurance Fund**

LIF operating revenues were \$3.8 million in the first quarter, very close to budget.

LIF operating expenses were \$1.3 million, \$184,000 below budget. This positive variance was due to staffing costs, external counsel savings and travel.

The market value of the LIF long term investments is \$119 million, an increase of \$4.9 million in the first quarter. The year to date investment returns were 4.24%, compared to a benchmark of 4.05%.

Summary of Financial Highlights - Mar 2014  
(\$000's)

2014 General Fund Results - YTD Mar 2014 (Excluding Capital Allocation & Depreciation)

	Actual*	Budget	\$ Var	% Var
<b>Revenue (excluding Capital)</b>				
Membership fees	4,257	4,249	8	0.2%
PLTC and enrolment fees	55	28	27	96.4%
Electronic filing revenue	164	205	(41)	-20.0%
Interest income	146	79	67	84.8%
Other revenue	434	380	54	14.2%
Building revenue & recoveries	232	226	6	2.7%
	5,288	5,167	121	2.3%
<b>Expenses (excl. dep'n)*</b>	4,256	4,326	70	1.6%
	<b>1,032</b>	<b>841</b>	<b>191</b>	

\* Note: YTD actuals include partial costs related to Benchers approved items to be funded from the reserve

2014 General Fund Year End Forecast (Excluding Capital Allocation & Depreciation)

Practice Fee Revenue	Avg # of Members	Actual Variance
2008 Actual	10,035	
2009 Actual	10,213	
2010 Actual	10,368	
2011 Actual	10,564	
2012 Actual	10,746	
2013 Actual	10,985	
2014 Budget	11,190	
2014 YTD Actual	10,940	
<b>Revenue</b>		
Membership revenue at budget		-
PLTC revenue, total of 465 students, versus budget of 450		40
845/835 Cambie - new lease on 3rd floor 835 Cambie, plus café lease renewal		100
		140
<b>Expenses</b>		
Compensation savings		250
Costs related to TWU application process		(150)
Additional regulation external counsel fees		(100)
		-
<b>2014 General Fund Actual Variance</b>		140
<b>2014 General Fund Budget</b>		-
<b>2014 General Fund Actual, before additional approved costs funded from reserve</b>		140
<b>Reserve funded amounts (Benchers approved):</b>		
CBA REAL 2014 contribution		(50)
Estimated Lawyer support & advice program set up costs		(235)
Update Practice standards/On-line courses		(80)
Regulation and Insurance Working Group costs		(75)
Articling student		(57)
		(497)
<b>2014 General Fund Actual, incl. items funded from reserve</b>		(357)

Trust Assurance Program Actual

	2014 Actual	2014 Budget	Variance	% Var
<b>TAF Revenue**</b>	4	-	4	0.0%
Trust Assurance Department	561	571	10	1.8%
<b>Net Trust Assurance Program</b>	<b>(557)</b>	<b>(571)</b>	<b>14</b>	

\*\* Q1 revenue not due until April 30th

2014 Lawyers Insurance Fund Long Term Investments - YTD Mar 2014 Before investment management fees

Performance	4.24%
Benchmark Performance	4.05%



The Law Society of British Columbia  
General Fund  
Results for the 3 Months ended March 31, 2014  
(\$000's)

	2014 Actual	2014 Budget	\$ Var	% Var
<b>Revenue</b>				
Membership fees (1)	6,181	6,218		
PLTC and enrolment fees	55	28		
Electronic filing revenue	164	205		
Interest income	146	79		
Other revenue	434	380		
Building Revenue & Recoveries	232	226		
Total Revenues	7,212	7,136	76	1.1%
<b>Expenses</b>				
Regulation	1,592	1,615		
Education and Practice	797	834		
Corporate Services	678	667		
Benchers Governance	226	244		
Communications and Information Services	417	399		
Policy and Legal Services	438	422		
Occupancy Costs	590	564		
Depreciation	78	126		
Total Expenses	4,816	4,871	(55)	-1.1%
General Fund Results before TAP	2,396	2,265	131	
<b>Trust Administration Program (TAP)</b>				
TAF revenues	3	-	3	
TAP expenses	561	571	10	2%
TAP Results	(558)	(571)	13	
General Fund Results including TAP	1,838	1,694	144	

(1) Membership fees include capital allocation of \$1.925m (YTD capital allocation budget = \$1.969m).

The Law Society of British Columbia  
General Fund - Balance Sheet  
As at March 31, 2014 (\$000's)

	Mar 31 2014	Dec 31 2013
<b>Assets</b>		
Current assets		
Cash and cash equivalents	91	179
Unclaimed trust funds	1,883	1,808
Accounts receivable and prepaid expenses	1,129	1,105
B.C. Courthouse Library Fund	1,777	505
Due from Lawyers Insurance Fund	15,744	22,211
	<u>20,624</u>	<u>25,808</u>
Property, plant and equipment		
Cambie Street property	12,568	12,721
Other - net	1,348	1,438
	<u>34,540</u>	<u>39,967</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	3,017	4,612
Liability for unclaimed trust funds	1,883	1,808
Current portion of building loan payable	500	500
Deferred revenue	12,455	18,971
Deferred capital contributions	44	47
B.C. Courthouse Library Grant	1,777	505
Deposits	18	16
Due to Lawyers Insurance Fund	-	-
	<u>19,694</u>	<u>26,459</u>
Building loan payable	3,100	3,600
	<u>22,794</u>	<u>30,059</u>
<b>Net assets</b>		
Capital Allocation	2,868	1,482
Unrestricted Net Assets	8,878	8,426
	<u>11,746</u>	<u>9,908</u>
	<u>34,540</u>	<u>39,967</u>

The Law Society of British Columbia  
General Fund - Statement of Changes in Net Assets  
For the 3 Months ended March 31, 2014 (\$000's)

	Invested in capital \$	Working Capital \$	Unrestricted Net Assets	Trust Assurance	Capital Allocation \$	2014 Total \$	2013 Total \$
Net assets - December 31, 2013	10,059	(1,595)	8,464	(38)	1,482	9,908	8,543
Net (deficiency) excess of revenue over expense for the period	(283)	754	471	(558)	1,925	1,838	1,365
Repayment of building loan	500	-	500	-	(500)	-	-
Purchase of capital assets:							
LSBC Operations	8	-	8	-	(8)	-	-
845 Cambie	31	-	31	-	(31)	-	-
Net assets - March 31, 2014	10,315	(841)	9,474	(596)	2,868	11,746	9,908

The Law Society of British Columbia  
Special Compensation Fund  
Results for the 3 Months ended March 31, 2014  
(\$000's)

	2014 Actual	2014 Budget	\$ Var	% Var
<b>Revenue</b>				
Annual assessment	-	-		
Recoveries	22	-		
Total Revenues	22	-	22	100.0%
<b>Expenses</b>				
Claims and costs, net of recoveries	-	-		
Administrative and general costs	-	-		
Loan interest expense	(8)	-		
Total Expenses	(8)		(8)	-100.0%
Special Compensation Fund Results	30	-	30	

The Law Society of British Columbia Special  
Compensation Fund - Balance Sheet As at  
March 31, 2014  
(\$000's)

	Mar 31 2014	Dec 31 2013
Assets		
Current assets		
Cash and cash equivalents	1	1
Accounts receivable	-	-
Due from Lawyers Insurance Fund	1,318	1,289
	<u>1,319</u>	<u>1,290</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	2	3
Deferred revenue	-	-
	<u>2</u>	<u>3</u>
Net assets		
Unrestricted net assets	1,317	1,287
	<u>1,317</u>	<u>1,287</u>
	<u>1,319</u>	<u>1,290</u>

The Law Society of British Columbia  
Special Compensation Fund - Statement of Changes in Net Assets  
Results for the 3 Months ended March 31, 2014  
(\$000's)

	2014	2013
	\$	\$
Unrestricted Net assets - December 31, 2013	1,287	1,226
Net excess of revenue over expense for the period	<u>30</u>	<u>61</u>
Net assets - March 31, 2014	<u><u>1,317</u></u>	<u><u>1,287</u></u>

The Law Society of British Columbia  
Lawyers Insurance Fund  
Results for the 3 Months ended March 31, 2014  
(\$000's)

	2014 Actual	2014 Budget	\$ Var	% Var
<b>Revenue</b>				
Annual assessment	3,762	3,687		
Investment income	4,854	1,011		
Other income	98	50		
Total Revenues	8,714	4,748	3,966	83.5%
<b>Expenses</b>				
Insurance Expense				
Provision for settlement of claims	3,422	3,422		
Salaries and benefits	626	730		
Contribution to program and administrative costs of General Fund	296	330		
Office	194	215		
Actuaries, consultants and investment brokers' fees	98	115		
Allocated office rent	53	53		
Premium taxes	7	2		
Income taxes	-	1		
	4,696	4,868		
Loss Prevention Expense				
Contribution to co-sponsored program costs of General Fund	199	211		
Total Expenses	4,895	5,079	184	3.6%
<b>Lawyers Insurance Fund Results</b>	<b>3,819</b>	<b>(331)</b>	<b>3,782</b>	

The Law Society of British Columbia  
Lawyers Insurance Fund - Balance Sheet  
As at March 31, 2014  
(\$000's)

	Mar 31 2014	Dec 31 2013
<b>Assets</b>		
Cash and cash equivalents	11,538	24,440
Accounts receivable and prepaid expenses	865	766
Due from members	170	144
General Fund building loan	3,600	4,100
Investments	127,639	121,304
	<u>143,812</u>	<u>150,754</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	485	1,474
Deferred revenue	3,465	7,065
Due to General Fund	15,744	22,211
Due to Special Compensation Fund	1,318	1,290
Provision for claims	52,507	52,240
Provision for ULAE	7,045	7,045
	<u>80,564</u>	<u>91,325</u>
<b>Net assets</b>		
Unrestricted net assets	45,748	41,929
Internally restricted net assets	17,500	17,500
	<u>63,248</u>	<u>59,429</u>
	<u>143,812</u>	<u>150,754</u>



The Law Society of British Columbia  
 Lawyers Insurance Fund - Statement of Changes in Net Assets  
 For the 3 Months ended March 31, 2014  
 (\$000's)

	Unrestricted \$	Internally Restricted \$	2014 Total \$	2013 Total \$
Net assets - December 31, 2013	41,929	17,500	59,429	49,821
Net excess of revenue over expense for the period	3,819	-	3,819	9,608
Net assets - March 31, 2014	45,748	17,500	63,248	59,429

# The Law Society *of British Columbia*



## **Law Society of British Columbia 2013 Financial Results**

*Benchers Meeting – May 10, 2014*

# Overview

The Law Society  
*of British Columbia*

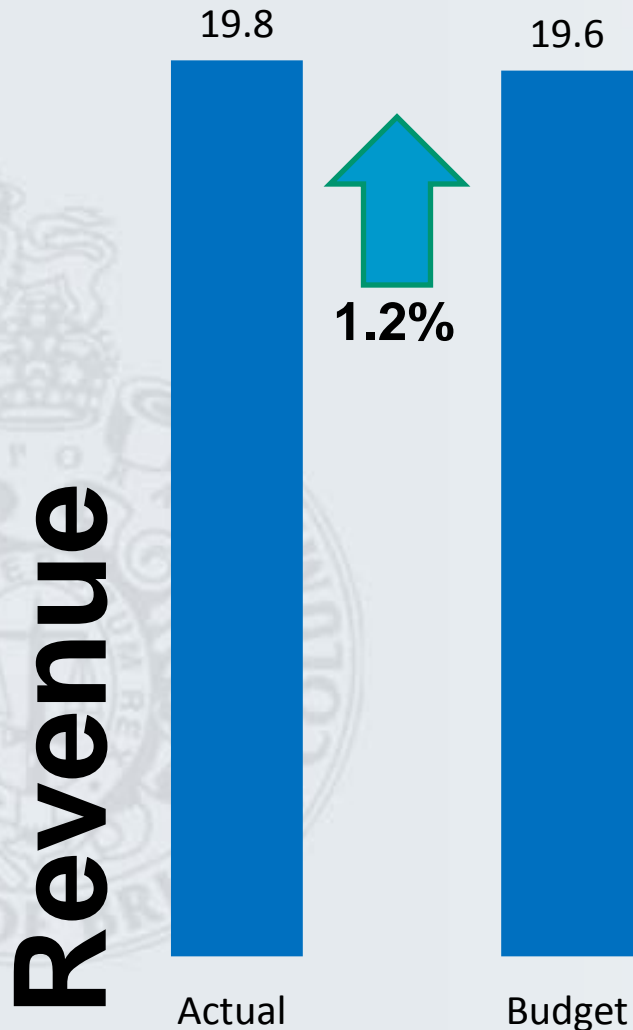


1. 2013 General Fund
2. 2013 TAF
3. 2013 Special Compensation
4. 2013 Lawyers Insurance Fund
5. 2014 to date

# General Fund Operating Results

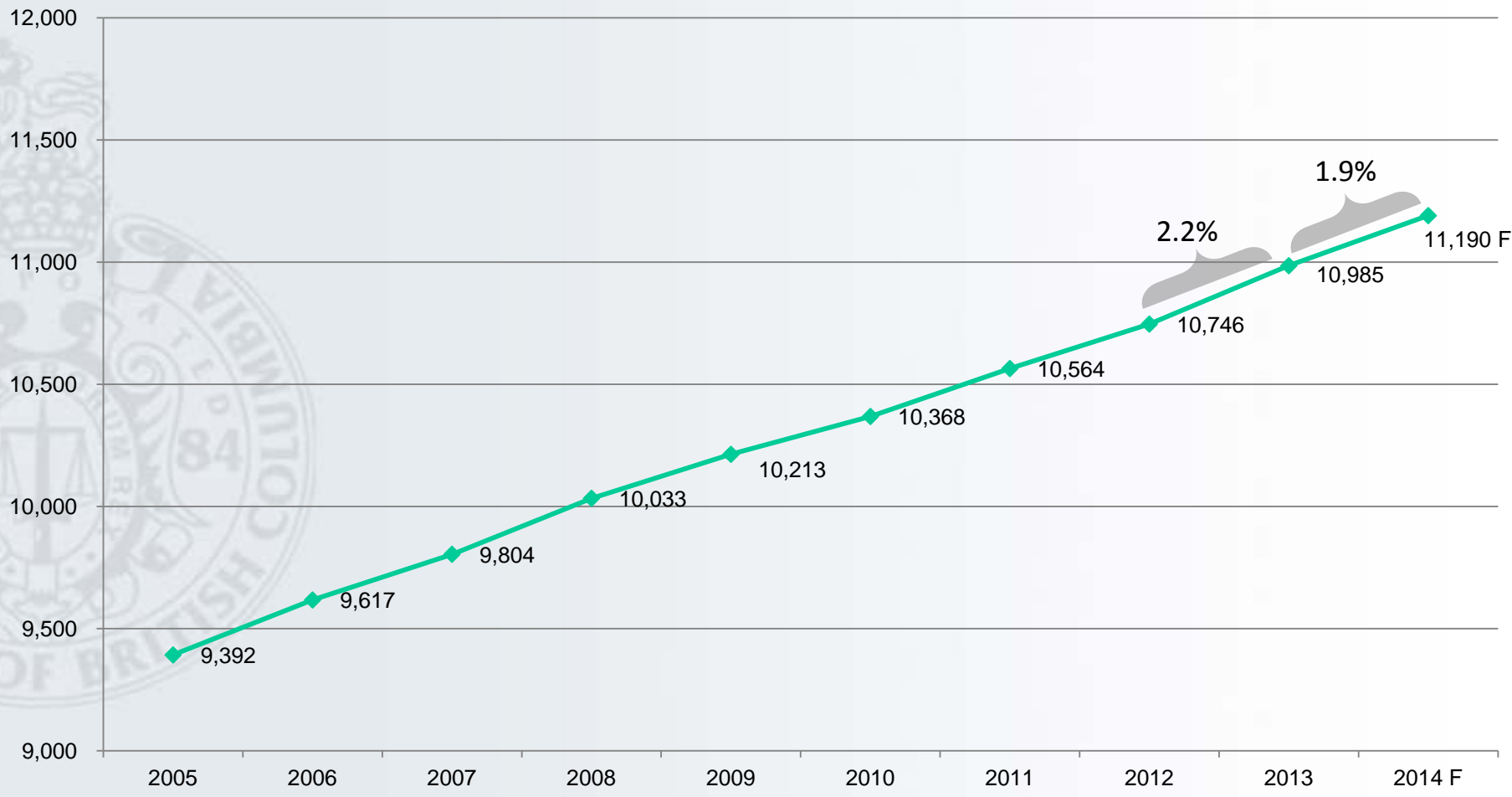
(without capital)

The Law Society  
of British Columbia

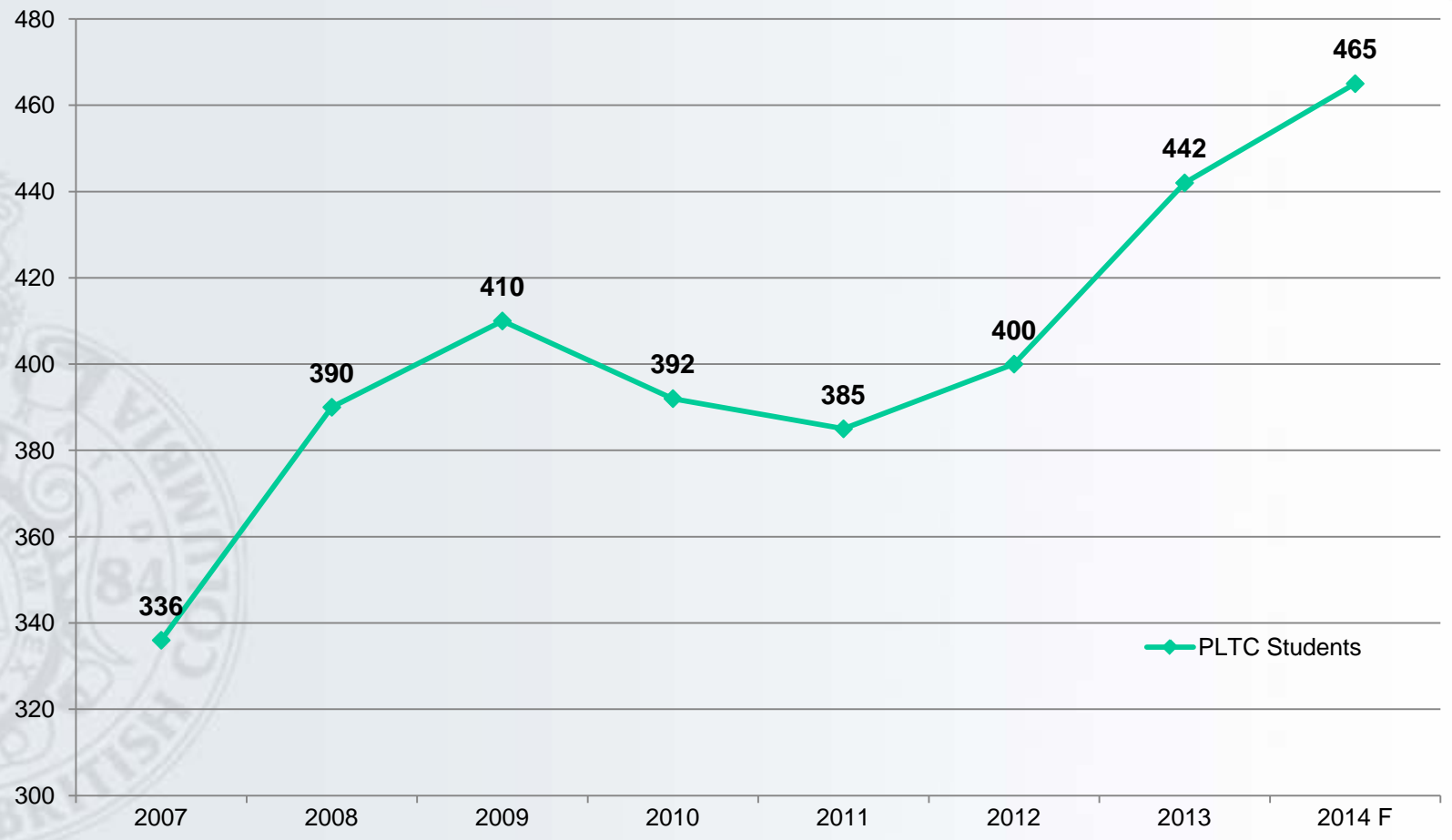


- Membership fees below budget and PLTC fees above budget
- 10,985 members, 15 members below budget of 11,000
- 442 PLTC students, 42 students above budget
- Electronic filing revenue below budget = (\$19,000)
- Interest income above budget = \$28,000
- Recoveries ahead of budget = \$75,000
- Cambie building lease revenue below budget = \$40,000

# 2013 Practising Membership



# PLTC Students





# General Fund Operating Results

(without capital)



## Areas of savings against budget:

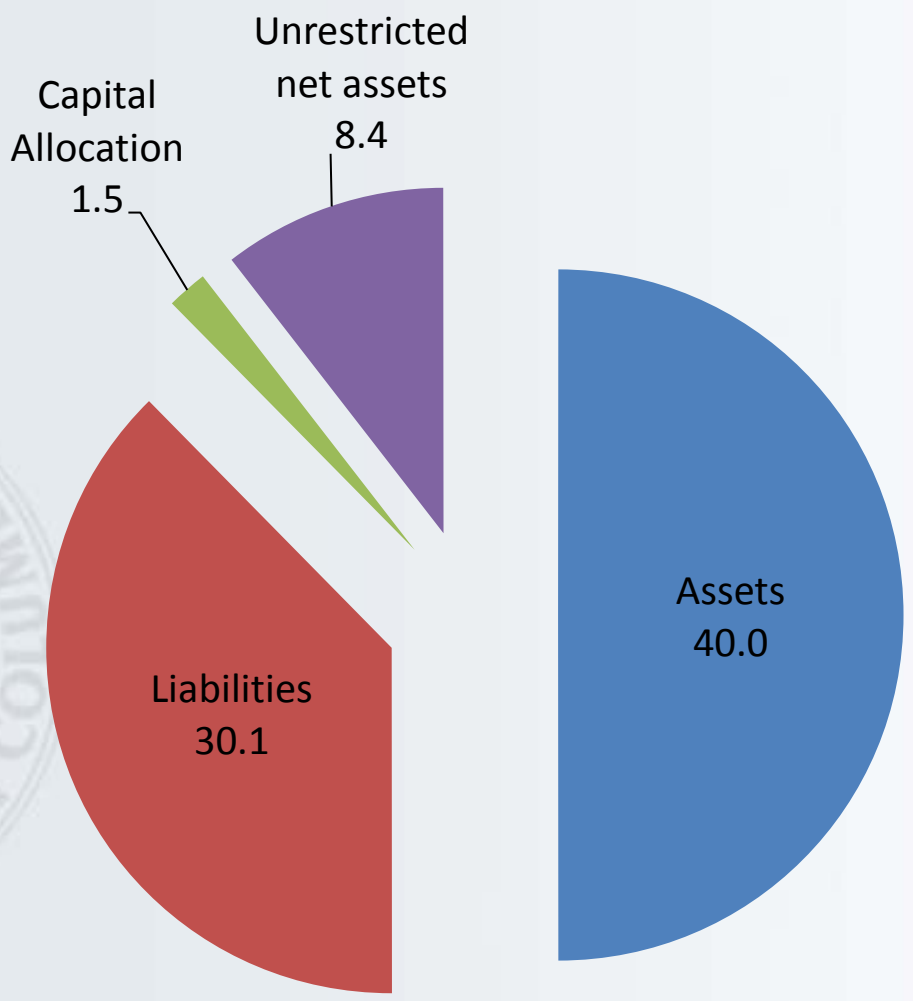
- Staff compensation = \$622,000
- Forensic professional fees = \$145,000

## Costs in excess of budget:

- Regulation external professional fees = (\$178,000)
- Credentials professional fees = (\$80,000)
- Privacy review recommendations = (\$86,000)
- CBA REAL initiative = (\$75,000)
- Contribution for Access Pro Bono space = (\$36,000)
- PLTC – additional students = (\$50,000)



# General Fund Balance Sheet – December 2013







Trust Assurance

2013 Actual



2013 Budget



2012 Actual



# Special Compensation Fund

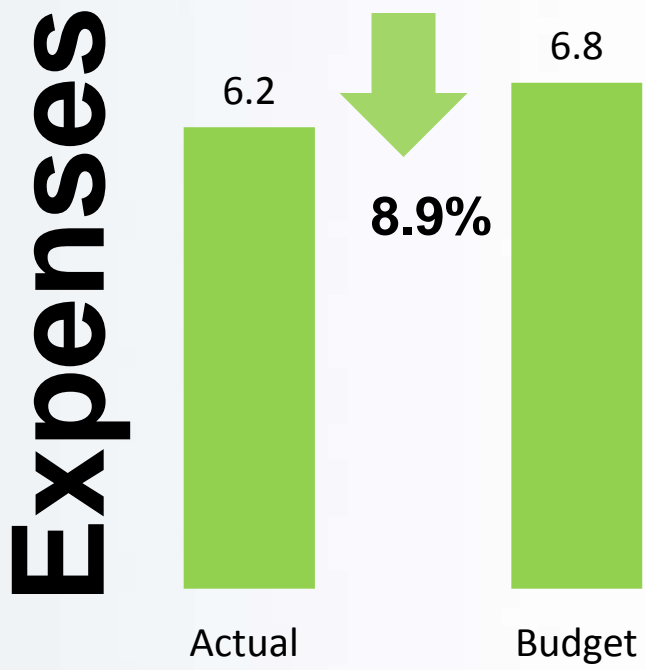
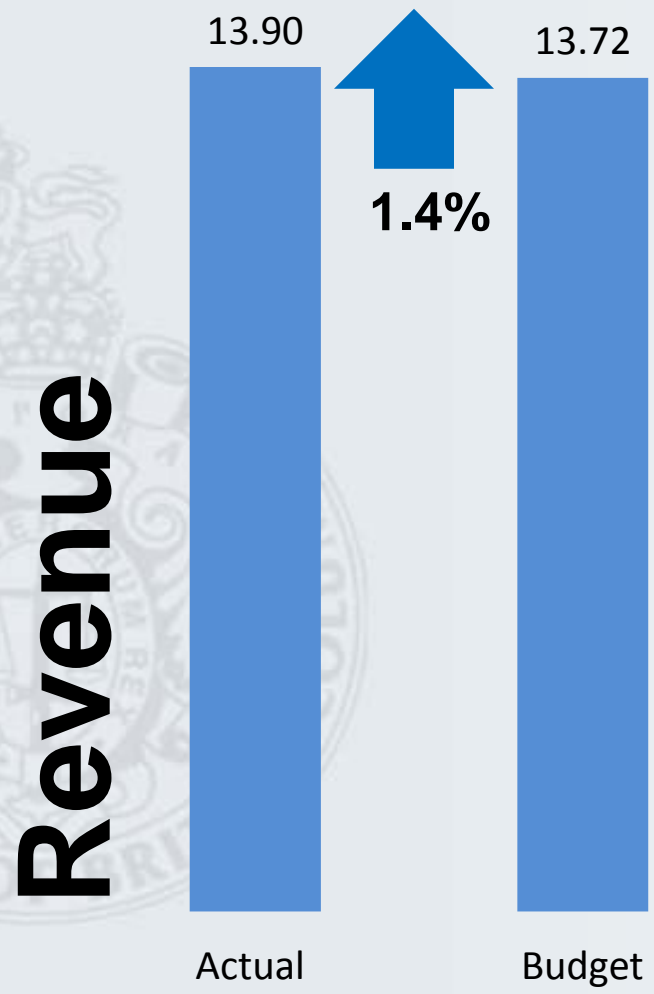
## Net Assets



## Special Fund Fee



# Lawyers Insurance Fund



# Lawyers Insurance Fund



## Investments



## Net Assets





## A preliminary look at 2014...

- 2014 membership numbers are close to budget and PLTC revenues are expected to exceed budget with additional students
- Pressures and strengths for 2014 –
  - Additional cost items to consider
    - TWU related costs - \$150,000
    - Regulation external counsel fees - \$100,000
  - Compensation savings relating to unfilled positions expected to offset additional costs
  - 835 building now fully rented and renewed lease for atrium café
  - TAF revenue – increased fee expected to be on budget which will reverse deficit position



## In Summary

- General Fund reserve – adequate levels
- Capital fund adequate for planned projects
- Special Compensation Fund – will transfer remaining reserve to LIF
- LIF investments – very good investment returns
- LIF reserve – reasonable levels
- 2014 forecast – additional revenue from building leases and PLTC students

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

**Combined Financial Statements  
December 31, 2013**

**DRAFT**

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED**

\_\_\_\_\_, 2014

## **Independent Auditor's Report**

**To the Members of  
The Law Society of British Columbia**

**Chartered Accountants**

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED**



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

## Combined Statement of Financial Position

As at December 31, 2013

	2013		2012
	General Fund \$	Special Compensation Fund \$	Total \$
<b>Assets</b>			
<b>Current assets</b>			
Cash	178,790	500	179,290
Unclaimed trust funds (note 2)	1,808,056	-	1,808,056
Accounts receivable and prepaid expenses (note 3)	1,105,280	-	1,105,280
B.C. Courthouse Library Fund (note 2)	504,863	-	504,863
Due from Lawyers Insurance Fund (note 10)	22,210,866	1,289,450	23,500,316
	25,807,855	1,289,950	27,097,805
<b>Non-current assets</b>			
Cambie Street property - net (note 4)	12,720,761	-	12,720,761
Other property and equipment - net (note 4)	893,368	-	893,368
Intangible assets - net (note 4)	544,920	-	544,920
	39,966,904	1,289,950	41,256,854
			39,585,693
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities (note 5)	4,595,351	2,708	4,598,059
Liability for unclaimed trust funds (note 2)	1,808,056	-	1,808,056
Current portion of building loan payable (note 9)	500,000	-	500,000
Deferred revenue (notes 2 and 6)	18,971,144	-	18,971,144
Deferred capital contributions (notes 2 and 7)	46,995	-	46,995
B.C. Courthouse Library grant (note 2)	504,863	-	504,863
Deposits	32,208	-	32,208
	26,458,617	2,708	26,461,325
<b>Building loan payable</b> (notes 9 and 10)	3,600,000	-	3,600,000
	30,058,617	2,708	30,061,325
			29,816,179
<b>Net assets</b>			
Unrestricted (note 8)	9,908,287	1,287,242	11,195,529
	39,966,904	1,289,950	41,256,854
			39,585,693

**Commitments** (notes 15)

**Approved by**

\_\_\_\_ President \_\_\_\_\_ Chair of Finance and Audit Committee

The accompanying notes are an integral part of these combined financial statements.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED**

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

Combined Statement of Changes in Net Assets

For the year ended December 31, 2013

	<b>2013</b>		<b>2012</b>
	<b>General Fund - Unrestricted \$</b>	<b>Special Compensation Fund - Unrestricted \$</b>	<b>Total \$</b>
<b>Net assets - Beginning of year</b>	8,543,318	1,226,196	9,769,514
Net excess of revenue over expenses for the year	1,364,969	61,046	1,426,015
<b>Net assets - End of year (note 8)</b>	<b>9,908,287</b>	<b>1,287,242</b>	<b>11,195,529</b>

The accompanying notes are an integral part of these combined financial statements.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED**

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

## Combined Statement of Revenue and Expenses

For the year ended December 31, 2013

	2013		2012	
	General Fund \$	Special Compensation Fund \$	Total \$	Total \$
<b>Revenue</b>				
Practice fees	18,228,727	-	18,228,727	17,393,093
Annual assessments	-	-	-	10,818
Trust administration fees	2,165,619	-	2,165,619	2,158,069
Enrolment fees	1,106,000	-	1,106,000	1,041,900
Interest and other income (note 10)	794,883	-	794,883	841,216
E-filing revenue	816,435	-	816,435	854,441
Fines and penalties	410,901	-	410,901	367,344
Application fees	410,265	-	410,265	389,770
	23,932,830	-	23,932,830	23,056,651
<b>Expenses</b>				
Benchers Governance				
Bencher, AGM and other committees	1,102,264	-	1,102,264	1,312,622
Federation of Law Societies' contribution	271,783	-	271,783	249,680
CanLII's contribution	382,809	-	382,809	375,736
Pro bono contribution	200,849	-	200,849	161,863
Communication and Information Services				
Communications and publications	1,129,870	-	1,129,870	1,049,313
Information services	1,250,278	-	1,250,278	1,360,959
Education and Practice				
Credentials	683,819	-	683,819	522,884
Ethics	196,350	-	196,350	177,574
Member services	738,063	-	738,063	646,661
Membership assistance programs	236,190	-	236,190	229,080
Practice advice	609,502	-	609,502	553,973
Practice standards	621,355	-	621,355	578,205
Professional Legal Training Course and Education	2,119,178	-	2,119,178	1,981,842
General and Administrative				
Accounting	760,552	-	760,552	738,334
Amortization of other property and equipment	464,421	-	464,421	422,988
General administration	1,739,132	-	1,739,132	1,703,402
Human resources	910,377	-	910,377	830,358
Records management and library	338,941	-	338,941	306,849
Policy and Legal Services				
Policy and tribunal counsel	1,611,839	-	1,611,839	1,323,681
External litigation and interventions	101,250	-	101,250	155,483
Unauthorized practice	320,102	-	320,102	304,230
Regulation				
Custodianship costs	1,381,315	-	1,381,315	1,346,852
Discipline	1,372,817	-	1,372,817	1,208,454
Professional conduct - intake and investigations	3,890,731	-	3,890,731	3,921,672
Forensic accounting	454,698	-	454,698	407,735
Trust assurance	1,917,807	-	1,917,807	1,962,182
Carried forward	24,806,292	-	24,806,292	23,832,612

The accompanying notes are an integral part of these combined financial statements.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT**

**NOT TO BE FURTHER COMMUNICATED**

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

Combined Statement of Revenue and Expenses ...continued

For the year ended December 31, 2013

	<b>2013</b>		<b>2012</b>
	<b>General Fund \$</b>	<b>Special Compensation Fund \$</b>	<b>Total \$</b>
Brought forward	24,806,292	-	24,806,292
Special Compensation Fund			
Recoveries	-	(54,612)	(54,612)
Claims and costs (note 11)	-	-	-
General and administrative costs	-	26,185	26,185
Loan interest income from Lawyers Insurance Fund (note 10)	-	(32,619)	(32,619)
	24,806,292	(61,046)	24,745,246
<b>Costs recovered from Special Compensation and Lawyers Insurance Funds</b>			
Co-sponsored program costs	(808,602)	-	(808,602)
Program and administrative costs	(1,578,466)	-	(1,578,466)
	22,419,224	(61,046)	22,358,178
<b>Excess of revenue over expenses before the following</b>	1,513,606	61,046	1,574,652
<b>845 Cambie net results</b>			
Rental revenue	272,076	-	272,076
Allocated rental revenue (note 2)	1,745,670	-	1,745,670
	2,017,746	-	2,017,746
<b>Expenses</b>			
Amortization	699,682	-	699,682
Insurance	80,696	-	80,696
Loan interest expense (note 9)	100,657	-	100,657
Property management	203,654	-	203,654
Property taxes	493,723	-	493,723
Repair and maintenance	613,627	-	613,627
Utilities	115,083	-	115,083
Recovery from tenants	(140,739)	-	(140,739)
	2,166,383	-	2,166,383
<b>Net 845 Cambie operating revenue</b>	(148,637)	-	(148,637)
<b>Net excess of revenue over expenses for the year</b>	1,364,969	61,046	1,426,015

The accompanying notes are an integral part of these combined financial statements.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED**

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

## Combined Statement of Cash Flows

For the year ended December 31, 2013

	<b>2013</b>		<b>2012</b>	
	<b>General Fund \$</b>	<b>Special Compensation Fund \$</b>	<b>Total \$</b>	<b>Total \$</b>
<b>Cash flows from operating activities</b>				
Net excess of revenue over expenses for the year	1,364,969	61,046	1,426,015	1,725,525
Items not affecting cash				
Amortization of Cambie Street building and tenant improvements	699,682	-	699,682	592,951
Amortization of other property and equipment	293,941	-	293,941	278,926
Amortization of intangible assets	170,473	-	170,473	98,924
Amortization of deferred capital contributions	(11,378)	-	(11,378)	(11,378)
Loss on disposal of capital assets	320	-	320	13,873
	2,518,007	61,046	2,579,053	2,698,821
(Increase) decrease in current assets				
Unclaimed trust funds	(136,528)	-	(136,528)	176,323
Accounts receivable and prepaid expenses	(123,593)	-	(123,593)	147,376
B.C. Courthouse Library Fund	1,982,478	-	1,982,478	(1,809,623)
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities	2,022,823	(167,886)	1,854,937	(1,303,593)
Liability for unclaimed trust funds	136,528	-	136,528	(176,323)
Deferred revenue	746,228	-	746,228	723,369
B.C. Courthouse Library grant	(1,982,478)	-	(1,982,478)	1,809,623
Deposits	1,309	-	1,309	1,500
	5,164,774	(106,840)	5,057,934	2,267,473
<b>Cash flows from financing activities</b>				
Decrease in building loan payable	(500,000)	-	(500,000)	(500,000)
<b>Cash flows from investing activities</b>				
Purchase of property and equipment	(2,273,841)	-	(2,273,841)	(459,109)
Purchase of intangible assets	(74,807)	-	(74,807)	(398,684)
	(2,348,648)	-	(2,348,648)	(857,793)
<b>Interfund transfers</b>	(2,809,104)	106,840	(2,702,264)	(517,067)
<b>(Decrease) increase in cash</b>	(492,978)	-	(492,978)	392,613
<b>Cash - Beginning of year</b>	671,768	500	672,268	279,655
<b>Cash - End of year</b>	178,790	500	179,290	672,268
<b>Supplementary cash flow information</b>				
Interest paid	100,657	-	100,657	110,293
Interest income received	306,054	32,619	338,673	273,599

The accompanying notes are an integral part of these combined financial statements.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED**

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

Notes to Combined Financial Statements

December 31, 2013

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## **1 Nature of operations**

The Law Society of British Columbia (the Society) regulates the legal profession in British Columbia, protecting public interest in the administration of justice by setting and enforcing standards of professional conduct for lawyers.

The General Fund comprises the assets, liabilities, net assets, revenue and expenses of the operations of the Society other than those designated to the statutory Special Compensation Fund and the Lawyers Insurance Fund (including its wholly owned subsidiary, LSBC Captive Insurance Company Ltd.).

The Special Compensation Fund is maintained by the Society pursuant to Section 31 of the Legal Profession Act (LPA). The Special Compensation Fund 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 LPA provides that the assets of the Special Compensation Fund are not subject to process of seizure or attachment by creditors of the Society.

Effective January 1, 2013, the Legal Profession Amendment Act, 2012 repealed Section 31 of the LPA. The legislation was changed pursuant to Section 50 of the Legal Profession Amendment Act, 2012 (SBC 2012, C16), to initiate the transfer of unused reserves that remain within the Special Compensation Fund, after all recoveries are received and expenses and claims are paid, to be used in the Lawyers Insurance Fund. Additionally, Section 23 of the LPA was amended to remove the requirement that practising lawyers pay the Special Compensation Fund assessment. Accordingly, for 2013, the per member Special Compensation Fund assessment remained at \$nil (2012 - \$nil).

Effective May 1, 2004, Part B to the B.C. Lawyers' Compulsory Professional Liability Insurance Policy 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. Part B (Trust Protection Coverage) is recorded in the Lawyers Insurance Fund.

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

Separate financial statements have been prepared for the Lawyers Insurance Fund, including LSBC Captive Insurance Company Ltd.

## **2 Significant accounting policies**

These combined financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO) as issued by the Canadian Accounting Standards Board.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED**

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

Notes to Combined Financial Statements

December 31, 2013

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## **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, the proportion of the Lawyers Insurance Fund's staff 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 estimated market rent, allocated to each of the Funds. The corresponding rental expense is included within the relevant functions and therefore has not been eliminated in the preparation of these combined financial statements.

## **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 combined statement of revenue and expenses of the General Fund. The Society grants money to the B.C. Courthouse Library through its fees per lawyer assessments.

## **Cash**

Cash comprises cash on hand.

## **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.

## **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.

## **Fair value of financial instruments**

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

The carrying values of the interfund balances including the building loan payable and other interfund transactions are recorded at their carrying amounts which approximate their exchange amounts.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED**

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

Notes to Combined Financial Statements

December 31, 2013

## **Intangible assets**

Intangible assets comprise computer software. Software is recorded at cost and amortized on a straight-line basis at 10% - 20% per annum.

## **Property and equipment**

Property and equipment, including leasehold improvements, are recorded at cost less accumulated amortization.

The Society provides for amortization on a straight-line basis as follows:

Buildings	40 years from purchase date
Computer hardware	10% - 20% per annum
Furniture and fixtures	10% per annum
Leasehold improvements	10% per annum
Building improvements and equipment	10% per annum
Tenant improvements	over lease period

The Society recognizes a full year's amortization expense in the year of acquisition, with the exception of building improvements and equipment and leasehold improvements which are amortized from their date of completion.

## **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 recorded as deferred revenue for financial reporting purposes and will be recognized as revenue in the next calendar year.

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

## **Unclaimed trust funds**

The General Fund recognizes unclaimed trust funds as an asset as well as a corresponding liability 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 balances, 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 combined statement of revenue and expenses. Unclaimed funds outstanding for more than five years are transferred to the Law Foundation of British Columbia.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED**



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

Notes to Combined Financial Statements

December 31, 2013

## Use of estimates

The preparation of combined financial statements in accordance with ASNPO 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 combined financial statements and the reported amounts of certain revenues and expenses during the year. Actual results could differ from these estimates.

## 3 Accounts receivable

Accounts receivable are presented net of the allowance for doubtful accounts of \$579,096 (2012 - \$651,531).

## 4 Property, equipment and intangible assets

### a) 845 Cambie Street property

	<b>2013</b>		
	<b>Cost \$</b>	<b>Accumulated amortization \$</b>	<b>Net \$</b>
Land	4,189,450	-	4,189,450
Buildings	12,017,275	6,365,132	5,652,143
Leasehold improvements	7,740,102	5,069,290	2,670,812
Tenant improvements	604,124	395,768	208,356
	<b>24,550,951</b>	<b>11,830,190</b>	<b>12,720,761</b>
	<b>2012</b>		
	<b>Cost \$</b>	<b>Accumulated amortization \$</b>	<b>Net \$</b>
Land	4,189,450		4,189,450
Buildings	12,011,261	6,034,257	5,977,004
Leasehold improvements	5,943,787	4,729,190	1,214,597
Tenant improvements	989,595	988,591	1,004
	<b>23,134,093</b>	<b>11,752,038</b>	<b>11,382,055</b>

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED**

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

Notes to Combined Financial Statements

December 31, 2013

b) Other property and equipment

	<b>2013</b>		
	<b>Cost \$</b>	<b>Accumulated amortization \$</b>	<b>Net \$</b>
Furniture and fixtures	2,404,514	1,766,392	638,122
Computer hardware	1,011,271	759,779	251,492
Artwork and collectibles	49,158	45,405	3,753
Law libraries - at nominal value	1	-	1
	<b>3,464,944</b>	<b>2,571,576</b>	<b>893,368</b>
	<b>2012</b>		
	<b>Cost \$</b>	<b>Accumulated amortization \$</b>	<b>Net \$</b>
Furniture and fixtures	2,258,669	1,653,756	604,913
Computer hardware	964,698	617,443	347,255
Artwork and collectibles	45,412	45,405	7
Law libraries - at nominal value	1	-	1
	<b>3,268,780</b>	<b>2,316,604</b>	<b>952,176</b>

c) Intangible assets

	<b>2013</b>		
	<b>Cost \$</b>	<b>Accumulated amortization \$</b>	<b>Net \$</b>
Computer software	1,279,282	734,362	544,920
	<b>2012</b>		
	<b>Cost \$</b>	<b>Accumulated amortization \$</b>	<b>Net \$</b>
Computer software	1,204,475	563,889	640,586

In 2013, intangible assets, consisting entirely of computer software, with an aggregate amount of \$74,807 (2012 - \$398,684) were purchased.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED**

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

Notes to Combined Financial Statements

December 31, 2013

## 5 Government remittances

The following government remittances are included in accounts payable and accrued liabilities:

	2013 \$	2012 \$
Medical Services Plan of BC	67	(156)
Receivable General – GST/HST	90,234	41,673
Total government remittances payable	90,301	41,517

## 6 Deferred revenue

As at December 31, 2013, fees and assessments of \$18.97 million (2012 - \$18.2 million) related to the subsequent year were received and recorded as deferred revenue. Revenue will be recognized on a monthly basis as earned. Surplus funds are invested in the Lawyers Insurance Fund's investment portfolio.

## 7 Deferred capital contributions

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

	2013 \$	2012 \$
Balance - Beginning of year	58,373	69,751
Less: Amortization for the year	(11,378)	(11,378)
Balance - End of year	46,995	58,373

## 8 Unrestricted net assets

The General Fund unrestricted net assets include \$1,481,350 (2012 - \$2,405,370) which has been allocated to capital expenditures in accordance with the capital plan. The remaining General Fund net assets represent amounts invested in capital assets.

The General Fund unrestricted net assets also include a (\$38,600) deficit balance (2012 - \$71,517 net asset balance). During the year, \$2.2 million (2012 - \$2.2 million) in trust administration fee revenue was collected, and \$2.3 million (2012 - \$2.3 million) in trust administration fee expenses was incurred.

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

Notes to Combined Financial Statements

December 31, 2013

## 9 Building loan payable

In 1992, the Benchers authorized the borrowing of monies from the Lawyers Insurance Fund to fund the capital development of the Society's buildings at 845 Cambie Street, Vancouver, BC. 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 Lawyers Insurance Fund investment portfolio. Interest paid on the building loan is disclosed in note 11. The outstanding building loan balance at the end of the 2013 year is \$4.1 million (2012 - \$4.6 million). It is the intention of the Benchers to require the General Fund to repay a minimum of \$500,000 of the principal each year. During 2013, principal of \$500,000 (2012 - \$500,000) was repaid.

	2013 %	2012 %
Weighted average rate of interest	2.44	2.39

## 10 Interfund transactions

The operations of the General, Lawyers Insurance and Special Compensation Funds are controlled by the management of the Society. Balances between the funds generally arise from transactions of an operating nature and are recorded at the exchange amount at the dates of the transactions. Surplus funds are invested in the Lawyers 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 authorized a loan facility of up to \$1 million, of which \$nil has been drawn down at December 31, 2013 (2012 - \$nil), to the General Fund to fund capital expenditures in accordance with the capital plan. The Lawyers Insurance Fund has also authorized a loan facility of up to \$8 million, of which \$nil has been drawn down at December 31, 2013 (2012 - \$nil), to the Special Compensation Fund.

Monthly interest on the Lawyers Insurance Fund's net loan position with the General and Special Compensation Funds is earned 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 2013 was 2.44% (2012 - average bond yield - 2.39%). The General Fund's net loan position includes the General Fund's building loan and other operating balances with the Lawyers Insurance Fund. The net loan position fluctuates during the year as amounts are transferred between the General Fund, the Special Compensation Fund and the Lawyers Insurance Fund to finance ongoing operations.

During 2013, interest of \$100,657 was paid on the building loan and interest revenue of \$255,714 was received from General Fund cash balances held by the Lawyers Insurance Fund and \$32,619 was received from Special Compensation Fund cash balances held by the Lawyers Insurance Fund for a net interest income of \$187,676.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED**

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

## **Notes to Combined Financial Statements**

**December 31, 2013**

During 2012, interest of \$110,293 was paid on the building loan and interest revenue of \$245,839 was received from General Fund cash balances held by the Lawyers Insurance Fund and \$27,760 was received from Special Compensation Fund cash balances held by the Lawyers Insurance Fund for a net interest income of \$163,306.

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

### **11 Special Compensation Fund claims and program changes**

#### **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, 2013, there were no remaining claims for which statutory declarations had been received. All claims for which statutory declarations were received have been reviewed by the Special Compensation Fund Committee.

For claims reported prior to May 1, 2004, the insurance bond provided that total claims attributable to the period in excess of \$2,500,000 were 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 11(b). As set out in note 1, claims reported after May 1, 2004, are subject to Part B coverage by 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.

At December 31, 2013, there were no remaining claims still under consideration.

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 fell into the 2002 bond period and, as such, the Special Compensation Fund had claims greater than its level of insurance. 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 final payment was made in 2010.

In December, 2012, the Benchers approved a further payment of \$162,399 that was paid to claimants in 2013.

In 2013, the Special Compensation Fund recovered \$54,612 (2012 - \$515,459) related to the Wirick case.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED**

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

Notes to Combined Financial Statements

December 31, 2013

c) **Changes to Special Compensation Fund**

Effective January 1, 2013, the Legal Profession Amendment Act, 2012 repealed Section 31 of the LPA. The legislation was changed pursuant to Section 50 of the Legal Profession Amendment Act, 2012 (SBC 2012, C16), to initiate the transfer of unused reserves that remain within the Special Compensation Fund, after all recoveries are received and expenses and claims are paid, to be used in the Lawyers Insurance Fund. Additionally, Section 23 of the LPA was amended to remove the requirement that practising lawyers pay the Special Compensation Fund assessment. Accordingly, for 2013, the per member Special Compensation Fund assessment remained at \$nil (2012 - \$nil).

## **12 Related parties**

The elected Benchers include members 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, 2013, expenses of \$177,087 (2012 - \$140,517) recorded at carrying amount were incurred by the General Fund during the normal course of business with these law firms.

## **13 Capital management**

The Society defines its capital as the amounts included in its unrestricted net assets. Its objective when managing capital is to safeguard its ability to continue as a going concern so that it can continue to fulfil its objectives and meet its requirements.

## **14 Financial instruments**

The General and Special Compensation Funds' financial instruments consist of cash, accounts receivable and prepaid expenses, and accounts payable and accrued liabilities.

The significant financial risks to which the Society is exposed are credit risk and liquidity risk.

a) **Credit risk**

Cash and accounts receivable expose the Funds to credit risk.

The maximum exposure to credit risk arising from the above-noted items is \$582,293 (2012 - \$1,017,347). Credit risk arises from the possibility that a counterparty to an instrument fails to meet its obligations.

b) **Liquidity risk**

Liquidity risk is the risk that the Funds will not be able to meet all cash outflow requirements. Financial instruments held by the Society are limited to cash, accounts receivable and accounts payable and accrued liabilities and, therefore, bear no significant liquidity risk.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED**

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

Notes to Combined Financial Statements

December 31, 2013

## 15 Obligations and commitments under operating leases

The Society has committed to payments under certain operating leases relating to vehicle costs. Future minimum lease payments required in each of the next five fiscal years and thereafter are:

	\$
For the year ended December 31	
2014	24,144
2015	20,069
2016	17,158
2017	1,911
2018	-
Thereafter	-
	<hr/>
Total future minimum lease payments	<u>63,282</u>

For the year ended December 31, 2013, an amount of \$39,149 representing payments under operating leases was expensed (2012 - \$25,112).

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED**

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# **The Law Society of British Columbia - Lawyers Insurance Fund**

**Consolidated Financial Statements  
December 31, 2013**

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\_\_\_\_\_, 2014

## **Independent Auditor's Report**

**To the Members of  
The Law Society of British Columbia**

Insert text here.

**Chartered Accountants**

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# The Law Society of British Columbia - Lawyers Insurance Fund

## Consolidated Statement of Financial Position

As at December 31, 2013

	2013 \$	2012 \$
<b>Assets</b>		
<b>Cash</b>	19,320,297	3,869,634
<b>Accounts receivable</b> - net of allowance (note 3)	532,829	491,321
<b>Prepaid expenses</b>	397,334	498,226
<b>Short-term investments</b> (note 4)	5,119,563	19,355,051
<b>Members' share of provision for claims</b>	1,034,638	1,093,888
<b>General Fund building loan</b> (note 6)	4,100,000	4,600,000
<b>Investments</b> (note 5)	121,303,940	108,573,086
	<u>151,808,601</u>	<u>138,481,206</u>
<b>Liabilities</b>		
<b>Accounts payable and accrued liabilities</b> (note 3)	1,495,025	1,707,090
<b>Deferred revenue</b>	7,064,705	6,947,265
<b>Due to General Fund</b> (note 8)	22,210,866	19,401,762
<b>Due to Special Compensation Fund</b> (note 8)	1,289,451	1,396,290
<b>Provision for claims</b> (note 7)	53,274,766	52,052,328
<b>Provision for ULAE</b> (note 7)	7,045,000	7,155,000
	<u>92,379,813</u>	<u>88,659,735</u>
<b>Net assets</b>		
<b>Unrestricted net assets</b>	41,928,788	32,321,471
<b>Internally restricted net assets</b> (note 9)	17,500,000	17,500,000
	<u>59,428,788</u>	<u>49,821,471</u>
	<u>151,808,601</u>	<u>138,481,206</u>
<b>Commitments</b> (note 8)		
<b>Contingencies</b> (note 12)		

### Approved by

\_\_\_\_\_ President \_\_\_\_\_ Chair of Finance and Audit Committee

The accompanying notes are an integral part of these consolidated financial statements.

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# The Law Society of British Columbia - Lawyers Insurance Fund

## Consolidated Statement of Changes in Net Assets

For the year ended December 31, 2013

	2013		2012
	Unrestricted \$	Internally restricted \$	Total \$
<b>Net assets - Beginning of year</b>	32,321,471	17,500,000	49,821,471
Excess of revenue over expenses for the year	9,607,317	-	9,607,317
<b>Net assets - End of year</b>	<u>41,928,788</u>	<u>17,500,000</u>	<u>59,428,788</u>

The accompanying notes are an integral part of these consolidated financial statements.

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# The Law Society of British Columbia - Lawyers Insurance Fund

## Consolidated Statement of Revenue and Expenses

For the year ended December 31, 2013

	2013 \$	2012 \$
<b>Revenue</b>		
Annual assessments	13,899,938	13,665,545
Investment income (note 5)	5,484,823	2,729,208
Other income	51,665	90,096
	<u>19,436,426</u>	<u>16,484,849</u>
<b>Insurance expenses</b>		
Actuary, consultant and investment manager fees	423,571	390,137
Allocated office rent from General Fund	147,663	148,280
Contribution to program and administrative costs of General Fund	1,581,283	1,566,272
Office	771,291	803,530
Premium taxes	7,697	13,184
Provision for settlement of claims (note 7)	14,204,717	11,010,313
(Recovery of) provision for ULAE (note 7)	(110,000)	90,000
Salaries, wages and benefits	2,431,348	2,336,090
	<u>19,457,570</u>	<u>16,357,806</u>
<b>Loss prevention expenses</b>		
Contribution to co-sponsored program costs of General Fund	808,602	783,053
	<u>20,266,172</u>	<u>17,140,859</u>
<b>Deficiency of revenue over expenses before the following</b>	<u>(829,746)</u>	<u>(656,010)</u>
<b>Fair value changes in investments (note 5)</b>	<u>10,442,848</u>	<u>6,216,336</u>
	9,613,102	5,560,326
<b>Provision for income taxes</b>	<u>5,785</u>	<u>5,749</u>
<b>Excess of revenue over expenses for the year</b>	<u>9,607,317</u>	<u>5,554,577</u>

The accompanying notes are an integral part of these consolidated financial statements.

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# The Law Society of British Columbia - Lawyers Insurance Fund

## Consolidated Statement of Cash Flows

For the year ended December 31, 2013

	2013 \$	2012 \$
<b>Cash flows from operating activities</b>		
Excess of revenue over expenses for the year	9,607,317	5,554,577
Items not affecting cash		
Unrealized gain on investments	(8,565,482)	(5,878,139)
Realized gain on disposal of investments	(1,877,366)	(338,197)
Pooled distributions from investments	(5,265,681)	(2,514,190)
Amortization of 750 Cambie Street building	477,675	442,431
Amortization of deferred tenant inducement	-	35,244
	(5,623,537)	(2,698,274)
Decrease (increase) in assets		
Accounts receivable	(41,508)	303,344
Prepaid expenses	100,892	(472,954)
Short-term investments	14,235,488	(769,453)
Reinsurers' share of provision for claims	-	423,000
Members' share of provision for claims	59,250	138,014
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	(212,065)	474,612
Deferred revenue	117,440	134,286
Provision for claims	1,222,438	(2,478,161)
Provision for ULAE	(110,000)	90,000
Purchase of investments	(4,160,425)	(2,175,000)
Proceeds from disposal of investments	6,660,426	4,750,000
	12,248,399	(2,280,586)
<b>Cash flows from investing activities</b>		
Decrease in General Fund building loan	500,000	500,000
<b>Cash flows from financing activities</b>		
Interfund transfers (note 8)	2,702,264	517,067
<b>Increase (decrease) in cash</b>	15,450,663	(1,263,519)
<b>Cash - Beginning of year</b>	3,869,634	5,133,153
<b>Cash - End of year</b>	19,320,297	3,869,634
<b>Supplementary cash flow information</b>		
Interest paid	288,333	273,599
Interest income received	100,657	110,293

The accompanying notes are an integral part of these consolidated financial statements.

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# The Law Society of British Columbia - Lawyers Insurance Fund

## Notes to Consolidated Financial Statements

December 31, 2013

### 1 Nature of operations

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. Effective January 1, 1990, the Fund began underwriting the program by which errors and omissions insurance is provided to members of the Society.

#### Part A

The Society's members have limits of coverage for claims and potential claims arising from negligent acts, errors or omissions under Part A of the B.C. Lawyers' Compulsory Professional Liability Insurance Policy (the Policy) as follows:

	\$	\$
The Fund	995,000 or	990,000
Deductible - applicable to indemnity payments only	5,000 or	10,000
Limit per error or related errors		<u>1,000,000</u>
Annual aggregate limit for all errors per member		<u>2,000,000</u>

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. For the 2013 and 2012 policy years, the Society and the Captive have obtained stop-loss reinsurance in the amount of \$12,000,000 to cover aggregate payments over \$25,000,000 for Parts A and C of the Policy. This limit is co-insured 80/20 with the reinsurer paying 80% of losses over \$25,000,000 to a maximum of \$12,000,000 and the Fund paying 20%. All losses on claims since 1997 are fully reimbursed by the Fund on behalf of the Society under agreement.

#### Part B

Effective May 1, 2004, Part B of the Policy provides defined insurance coverage for dishonest appropriation of money or other property entrusted to and received by insured lawyers in their capacity as barristers and solicitors and in relation to the provision of professional services.

For the 2013 and 2012 policy years, there is a \$300,000 per claim limit and a \$17,500,000 profession-wide annual aggregate limit. The Captive has obtained insurance in the amount of \$5,000,000 to cover a portion of the annual aggregate limit. There is no deductible payable by the member. This insurance is subject to a \$3,000,000 group deductible and is co-insured 80/20 with the insurer paying 80% of losses over \$3,000,000 to a maximum of \$5,000,000 and the Fund paying 20%.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
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**The Law Society of British Columbia - Lawyers Insurance Fund**

Notes to Consolidated Financial Statements

December 31, 2013

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**Part C**

Effective January 1, 2012, Part C of the Policy provides defined insurance coverage for trust shortages suffered by insured lawyers as a result of relying on fraudulent certified cheques.

For the 2013 and 2012 policy years, there is a limit of \$500,000 per claim, and per lawyer and firm annually, a profession-wide annual aggregate of \$2 million, and a deductible of 35% of the client trust fund shortage (reduced by the amount of any overdraft paid). Coverage is contingent upon compliance with the Society's client identification and verification rules.

**2 Significant accounting policies**

These consolidated financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO) as issued by the Canadian Accounting Standards Board.

**Basis of consolidation**

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

Separate financial statements have been prepared for the Law Society's General Fund and Special Compensation Fund.

**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 proportion of the Fund's staff compared to the Society's total staff cost, or a set amount.

**Cash**

Cash comprises cash on hand.

**Deferred tenant inducements**

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

**Fair value of financial instruments**

The fair values of cash, accounts receivable, short-term investments, accounts payable and accrued liabilities and provision for claims payable correspond to their carrying values due to their short-term nature.

The interfund balances including the building loan receivable and other interfund transactions are recorded at their carrying amounts which approximate their exchange amounts.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED**

(2)



# The Law Society of British Columbia - Lawyers Insurance Fund

## Notes to Consolidated Financial Statements

December 31, 2013

### Short-term investments

Short-term investments consist of pooled money market funds and the carrying amount approximates the fair value at the reporting date due to their short-term maturities.

### Investments

The Fund's investments consist of units in pooled equity and bond funds and are initially and subsequently measured at fair value. Changes in fair value are recognized in the consolidated statement of revenue and expenses in the year incurred. Transaction costs that are directly attributable to the acquisition of these investments are recognized in the consolidated statement of revenue and expenses in the period incurred.

In addition, the 750 Cambie Street building is a property that is held as an investment for the Fund. The property is recognized at cost. Depreciation is provided on a straight-line basis as follows:

Building - 750 Cambie Street	2-1/2% per annum
Base building improvements	2-1/2% per annum
Tenant improvements	over lease period
Deferred tenant inducements	over lease period

### Investment income

Investment income and pooled fund distributions are 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 and unallocated loss adjustment expenses (ULAE) represent an estimate for all external costs of investigating and settling claims and potential claims reported prior to the date of the consolidated statement of financial position. 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 Fund presents its claims on a discounted basis.

### Reinsurance

The Fund reflects reinsurance balances on the consolidated statement of financial position on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to policyholders, and on a net basis on the consolidated statement of revenue and expenses to indicate the results of its retention of assessments retained.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED**

(3)

# The Law Society of British Columbia - Lawyers Insurance Fund

Notes to Consolidated Financial Statements

December 31, 2013

## Revenue recognition

The Fund 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 recorded as deferred revenue 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.

## Use of estimates

The preparation of financial statements in conformity with ASNPO 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 provision for claims and ULAE and the reinsurers' share of the provision for claims, and the fair value of the investment property, involves significant estimation. Actual results could differ from those estimates and the differences could be material.

## Financial instruments

The Fund's financial instruments consist of cash, accounts receivable, short-term investments, investments, and accounts payable and accrued liabilities.

The significant financial risks to which the Fund is exposed are credit risk, market risk, price risk, and liquidity risk.

## Credit risk

Cash, accounts receivable, members' share of provision for claims and bond pooled funds indirectly expose the Fund to credit risk.

The maximum exposure to credit risk arising from the above-noted items is \$68,237,343 (2012 - \$64,466,939).

Credit risk 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.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED**

(4)

# The Law Society of British Columbia - Lawyers Insurance Fund

## Notes to Consolidated Financial Statements

December 31, 2013

### Market risk

Market risk is the potential for loss to the Fund from changes in the value of its financial instruments due to changes in interest rates, foreign exchange rates or equity prices.

The Fund manages market risk by diversifying investments within the various asset classes and investing in pooled funds as set out in the guidelines of the Society's statement of investment policies and procedures (SIPP).

### Price risk

Price risk is the risk that the fair value of the Society's investments will fluctuate due to changes in the market prices whether these changes are caused by factors specific to the individual financial instrument, its issuer, or factors affecting all similar financial instruments traded in the market. It arises primarily on pooled equity and bond fund investments.

To manage price risk, the Society has guidelines on the diversification and weighting of investments within pooled funds which are set and monitored against the Society's SIPP.

As at December 31, 2013, if pooled fund prices increased or decreased by 10% with all other factors remaining constant, net assets would have increased or decreased by approximately \$11.0 million (2012 - \$9.7 million).

### Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet all cash outflow requirements. At December 31, 2013, the sum of the Fund's cash, short-term investments and pooled fund investments, at fair value, which are available to settle the liabilities of the Society as they come due, exceeded the sum of the liabilities by \$42.3 million, or 46% (2012 - \$31.6 million, or 36%).

## 3 Government remittances

The following government remittances are included in accounts receivable and accounts payable:

	2013 \$	2012 \$
Receiver General – GST/HST	(226,479)	(243,096)
Receiver General - corporate income tax	1,102	1,665
Ministry of Finance - premium tax	7,697	13,184
Receivable	(217,680)	(228,247)

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED**

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# The Law Society of British Columbia - Lawyers Insurance Fund

Notes to Consolidated Financial Statements

December 31, 2013

## 4 Short-term investments

Short-term investments comprise pooled money market funds with the following balances:

	2013 \$	2012 \$
Money market funds	5,119,563	19,355,051

## 5 Investments

	2013 \$	2012 \$
Investments - at fair value	110,195,425	96,986,896
750 Cambie Street Building	11,108,515	11,586,190
	121,303,940	108,573,086

	2013		
	Carrying cost \$	Gross unrealized gains \$	Gross unrealized losses \$
Bonds			
Pooled Funds	43,624,016	-	(1,394,000)
Equities			
Canadian Pooled Funds	17,367,734	10,466,396	-
International Pooled Funds	27,493,187	12,638,092	-
	44,860,921	23,104,488	-
	88,484,937	23,104,488	(1,394,000)
			110,195,425

FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED

(6)

# The Law Society of British Columbia - Lawyers Insurance Fund

## Notes to Consolidated Financial Statements

December 31, 2013

	2012			
	Carrying cost \$	Gross unrealized gains \$	Gross unrealized losses \$	Estimated fair value \$
Bonds				
Pooled Funds	39,286,570	370,475	-	39,657,045
Equities				
Canadian Pooled Funds	16,873,326	6,340,285	-	23,213,611
International Pooled Funds	27,681,994	6,434,246	-	34,116,240
	44,555,320	12,774,531	-	57,329,851
	83,841,890	13,145,006	-	96,986,896

The effective yield on the investment portfolio was 2.39% (2012 - 2.50%).

### Investment risk management

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

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 portfolio with a mix of fixed income and equity securities. The Society invests in bonds and equities through pooled funds.

### Investment income

	2013 \$	2012 \$
Interest on cash	5,055	4,850
Pooled distributions	5,375,138	2,608,794
Net interfund loan interest expense (note 8)	(187,676)	(163,307)
Building income - 750 Cambie Street (revenue of \$1,744,585 (2012 - \$1,648,537); net of expenses of \$1,452,279 (2012 - \$1,369,666))	292,306	278,871
Investment income	5,484,823	2,729,208

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED**

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# The Law Society of British Columbia - Lawyers Insurance Fund

## Notes to Consolidated Financial Statements

December 31, 2013

### Fair value changes in investments

	2013 \$	2012 \$
Realized gain on disposal of investments	1,877,366	338,197
Unrealized gain on investments measured at fair value	8,565,482	5,878,139
Fair value changes in investments	10,442,848	6,216,336

### 750 Cambie Street building

The 750 Cambie Street building is held as an investment for the Fund.

	2013		2012	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Land	4,299,850	-	4,299,850	4,299,850
Building	4,971,376	1,192,503	3,778,873	3,904,834
Base building improvements	3,219,651	737,373	2,482,278	2,565,009
Tenant improvements	2,314,520	1,843,980	470,540	701,036
Deferred tenant inducements	408,705	331,731	76,974	115,461
	15,214,102	4,105,587	11,108,515	11,586,190

### 6 General Fund building loan

In 1992, the Benchers authorized the lending of monies from the Fund to support the capital development of the Society's buildings at 845 Cambie Street, Vancouver, BC. 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's investment portfolio. It is the intention of the Benchers to require the General Fund to repay a minimum of \$500,000 of the principal each year. During 2013, principal of \$500,000 (2012 - \$500,000) was repaid.

	2013 %	2012 %
Weighted average rate of return	2.44	2.39

FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED

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# The Law Society of British Columbia - Lawyers Insurance Fund

## Notes to Consolidated Financial Statements

December 31, 2013

### 7 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:

	2013 \$	2012 \$
<b>Part A and Part C Insurance Coverage</b>		
Provision for claims - Beginning of year	51,756,469	54,043,143
Provision for losses and expenses for claims occurring in the current year	16,225,000	14,073,000
Decrease in estimated losses and expenses for losses occurring in prior years	(1,817,000)	(3,223,607)
Provision for claims liability	66,164,469	64,892,536
Less:		
Payments on claims incurred in the current year	(2,095,337)	(435,172)
Payments on claims incurred in prior years	(10,938,968)	(13,004,583)
Recoveries on claims	132,683	864,702
Change in reinsurers' share of recovery of claims	-	(423,000)
Change in due from members	(59,250)	(138,014)
Claim payments - net of recoveries	(12,960,872)	(13,136,067)
Provision for claims - End of year	53,203,597	51,756,469
<b>Part B Insurance Coverage</b>	71,169	295,859
<b>Total provision for Parts A, B and C Insurance Coverage</b>	<b>53,274,766</b>	<b>52,052,328</b>

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 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 Fund'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 Fund's future costs relating to the administration of claims and potential claims reported up to the consolidated statement of financial position date.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED**

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# The Law Society of British Columbia - Lawyers Insurance Fund

## Notes to Consolidated Financial Statements

December 31, 2013

The Fund discounts its best estimate of claims provisions at a rate of interest of 2.68% (2012 - 4.23%). The Fund 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.

A 1% increase in the discount rate will have a favourable impact on the claims liability of \$1.760 million (2012 - \$1.805 million) and a 1% decrease in the discount rate will have an unfavourable impact on the claims liability of \$1.883 million (2012 - \$1.938 million).

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 Fund includes a Provision for Adverse Deviations (PFAD) in some assumptions relating to claims development and future investment income. The PFAD is selected based on guidance from the Canadian Institute of Actuaries.

The effects of discounting and the application of PFAD are as follows (in thousands of dollars):

	2013 \$	2012 \$
Undiscounted	54,884	55,090
Effect of present value PFADs	(4,436)	(7,133)
	8,837	10,157
Discounted	59,285	58,114

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED**

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# The Law Society of British Columbia - Lawyers Insurance Fund

## Notes to Consolidated Financial Statements

December 31, 2013

### Claims development tables

A review of the historical development of the Fund's insurance estimates provides a measure of the Fund's ability to estimate the ultimate value of claims. The top half of the following tables illustrates how the Fund's estimate of total undiscounted claims costs for each year has changed at successive year-ends. The bottom half of the tables reconcile the cumulative claims to the amount appearing in the consolidated statement of financial position.

#### Part A insurance claims (in thousands of dollars)

Claims year	2004 \$	2005 \$	2006 \$	2007 \$	2008 \$	2009 \$	2010 \$	2011 \$	2012 \$	2013 \$	Total \$
Estimate of undiscounted ultimate claims costs											
At end of claims year	12,990	17,150	12,260	13,580	13,670	11,520	13,650	14,560	13,390	15,230	
One year later	9,360	14,730	12,770	14,980	13,230	11,310	12,990	13,550	13,080		
Two years later	9,450	12,470	11,530	15,250	13,470	11,500	12,610	11,570			
Three years later	9,430	11,080	9,960	14,940	13,360	13,470	13,210				
Four years later	9,350	10,500	9,650	14,820	13,170	13,960					
Five years later	8,760	10,320	8,960	14,610	13,060						
Six years later	9,370	9,910	8,560	16,190							
Seven years later	10,150	9,710	7,770								
Eight years later	10,050	9,920									
Nine years later	9,850										
Current estimate of cumulative claims	9,850	9,920	7,770	16,190	13,060	13,960	13,210	11,570	13,080	15,230	123,840
Cumulative payments to date	(9,456)	(8,368)	(7,067)	(15,133)	(10,220)	(10,837)	(7,607)	(5,678)	(2,079)	(2,080)	(78,525)
Undiscounted unpaid liability	394	1,552	703	1,057	2,840	3,123	5,603	5,892	11,001	13,150	45,315
Undiscounted unpaid liability in respect of 2003 and prior years											2,979
Undiscounted unallocated loss adjustment expense reserve											6,523
<b>Total undiscounted unpaid claims liability</b>											<b>54,817</b>
Discounting adjustment (includes Claim PFAD)											4,397
<b>Total discounted unpaid claims liability</b>											<b>59,214</b>

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED**

# The Law Society of British Columbia - Lawyers Insurance Fund

## Notes to Consolidated Financial Statements

December 31, 2013

### Part B insurance claims (in thousands of dollars)

Claims year	2004 \$	2005 \$	2006 \$	2007 \$	2008 \$	2009 \$	2010 \$	2011 \$	2012 \$	2013 \$	Total \$
Estimate of undiscounted ultimate claims costs											
At end of claims year	82	334	189	251	8	107	23	28	18	53	
One year later	65	134	229	250	7	196	19	24	13		
Two years later	64	109	222	274	9	197	22	23			
Three years later	39	12	221	322	9	197	26				
Four years later	1	15	279	353	9	147					
Five years later	1	16	297	375	9						
Six years later	1	16	336	121							
Seven years later	1	16	342								
Eight years later	1	16									
Nine years later	1										
Current estimate of cumulative claims	1	16	342	121	9	197	26	23	13	53	801
Cumulative payments to date	-	(16)	(342)	(121)	(9)	(197)	(26)	(23)	-	-	(734)
Undiscounted unpaid liability	1	-	-	-	-	-	-	-	13	53	67
Undiscounted unpaid loss adjustment expense reserve											-
<b>Total undiscounted unpaid claims liability</b>											<b>67</b>
Discounting adjustment (includes Claim PFAD)											4
<b>Total discounted unpaid claims liability</b>											<b>71</b>

The expected maturity of the unpaid claims provision is analyzed below (undiscounted and gross of reinsurance):

(in thousands of dollars)	Less than one year \$	One to two years \$	Two to three years \$	Three to four years \$	Four to five years \$	Over five years \$	Total \$
December 31, 2013	13,739	10,994	8,137	5,511	3,804	12,699	54,884
December 31, 2012	13,565	10,410	7,796	4,738	4,177	14,404	55,090

### Role of the actuary

The actuary is appointed to fulfill reporting requirements pursuant to the Insurance (Captive Company) Act of B.C. With respect to preparation of these consolidated financial statements, the actuary is required to carry out a valuation of the Fund's policy liabilities and to provide an opinion regarding their appropriateness at the date of the consolidated statement of financial position. The factors and techniques used in the valuation are in accordance with accepted actuarial practice, applicable legislation and associated regulations. The scope of the valuation encompasses the policy liabilities as well as any other matter specified in any direction that may be made by the regulatory authorities. The policy liabilities consist of a provision for unpaid claims and adjustment expenses. In performing the valuation of the liabilities for these contingent future events, which are by their very nature inherently variable, the actuary makes assumptions as to future loss ratios, trends, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Fund and the nature of the insurance policies.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED**

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# The Law Society of British Columbia - Lawyers Insurance Fund

## Notes to Consolidated Financial Statements

December 31, 2013

The valuation is based on projections for settlement of reported claims and claim adjustment expenses. It is certain that actual claims and claim adjustment expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, the projections make no provision for new classes of claims or claims categories not sufficiently recognized in the claims database.

The actuary relies on data and related information prepared by the Fund. The actuary also analyzes the Fund's assets for their ability to support the amount of policy liabilities.

### 8 Interfund transactions

The operations of the Fund, the General Fund and the Special Compensation Fund are administered by the management of the Society. Balances between the funds arise from transactions of an operating nature and are recorded at exchange amounts at the dates of the transactions. Surplus funds are invested in the Fund's investment portfolio.

Amounts due to and from the General Fund and the Special Compensation Fund are due on demand and have no fixed terms of repayment. The Fund has authorized 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 Fund has also authorized a loan facility of up to \$8 million to the Special Compensation Fund. As of December 31, 2013, no amounts have been drawn on the facilities (2012 - \$nil).

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's investment portfolio. The average bond yield for 2013 was 2.44% (2012 average rate - 2.39%). The Fund's net loan position of \$19,400,316 (2012 - \$16,198,052) 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, the Special Compensation Fund and the Fund to finance ongoing operations.

During 2013, interest revenue of \$100,657 (2012 - \$110,293) was received on the General Fund building loan and interest of \$255,714 (2012 - \$245,839) was paid on General Fund cash balances held by the Fund and \$32,619 (2012 - \$27,760) was paid on the Special Compensation Fund cash balances held by the Fund for a net interest expense of \$187,676 (2012 - \$163,307).

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

### 9 Internally restricted net assets

The Benchers have allocated \$17,500,000 (2012 - \$17,500,000) of the net assets to the Part B defalcation coverage.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED**

(13)

**The Law Society of British Columbia - Lawyers Insurance Fund**

Notes to Consolidated Financial Statements

December 31, 2013

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**10 Regulatory requirements and capital management**

The Captive is required to maintain a minimum of \$200,000 in shareholder's equity and \$100,000 in reserves under the regulations of the Insurance (Captive Company) Act of B.C. The Captive was in compliance with these regulations throughout the year and as at December 31, 2013.

**11 Related parties**

The elected Benchers include members 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, 2013, expenses of \$148,040 (2012 - \$101,190) were incurred by the Fund with these law firms.

**12 Contingencies**

During the 2011 year, a Tax Auditor for the Ministry of Finance informed the Captive that the Ministry contended that the annual assessments contributed by members to the Lawyers Insurance Fund constituted premiums payable to the Captive for purposes of the Insurance Premium Tax Act and that the Ministry proposed to adjust the Captive's net taxable premiums from 2005 to 2009 to reflect this. The proposed additional tax was \$2 million. The Captive maintains that it is liable for premium tax only on amounts received by it from the Lawyers Insurance Fund as a reimbursement of reinsurance premiums and general and administrative costs. That premium tax has been paid in full. The Captive has disputed the Ministry's proposal and the Ministry of Finance has taken no further action to date. The Captive has accounted for this matter using the contingent liability method, whereby a provision is established only when it is considered likely that a liability will be incurred. Management considers that the outcome of this matter is not determinable at this time and therefore no provision has been established. If any amounts become due, the Lawyers Insurance Fund will reimburse the Captive.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED**

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# Memo

To: Benchers  
From: Finance and Audit Committee  
Date: April 16, 2014  
Subject: Benchers Approval of the 2013 Audited Financial Statements

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As recommended by the Governance Committee and approved by the Benchers, the annual audited financial statements are to be reviewed and recommended for approval by the Finance and Audit Committee, and approved by the Benchers.

Attached are the 2013 audited financial statements for the General and Special Compensation Fund, and the consolidated Lawyers Insurance Fund (including the LSBC Captive Insurance Company Limited). These statements were reviewed by the Finance and Audit Committee at their April 10, 2014 meeting.

The Finance and Audit Committee recommends the following resolution for approval by the Benchers:

*BE IT RESOLVED to approve the Law Society's 2013 Financial Statements, for the General & Special Compensation Fund and the Consolidated Lawyers Insurance Fund.*



## **CEO's Report to the Benchers**

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May 10, 2014

Prepared for: Benchers

Prepared by: Timothy E. McGee

## Financial Results

The audited 2013 Financial Statements and associated materials have now been reviewed by the Finance and Audit Committee and are attached as a separate item in your Benchers Agenda Package. Also attached as a separate agenda item are the financial results for the first quarter ended March 31, 2014. As you can see, we are tracking well to budget through the first three months of this year. Finance and Audit Committee Chair Ken Walker, QC, Chief Financial Officer Jeanette McPhee and I will be available to answer any questions you might have regarding these items.

## In-House Advocacy Workshop for Discipline Counsel

Representing the Law Society in citation hearings presents unique challenges for discipline counsel. They have an obligation to represent the public interest in the administration of justice but they must also ensure that respondents receive a fair hearing. Often, the manner in which citations are defended and the fact that many respondents choose to represent themselves creates special challenges for all involved.

The discipline counsel group have considerable experience with litigation generally and Law Society hearings in particular, but they recognize and welcome the added benefits of continual growth, peer-to-peer learning and feedback from more experienced counsel, including those who have had the opportunity to serve as hearing panel members. In order to continue to provide support to discipline counsel in this area, Jaia Rai, Manager, Discipline, together with Deb Armour, Chief Legal Officer, are in the process of developing an in-house advocacy workshop for counsel. The workshop will take the form of mock hearings where each counsel will have the opportunity to conduct various aspects of hearings of fictional cases before a panel of guest instructors, at the conclusion of which counsel will receive feedback from each other and the instructors. The feedback will include tips for effective openings, examinations, cross-examinations and oral closing arguments as well as “views from the panel” perspectives. Senior members of the bar who have already expressed an interest and willingness to participate in the workshop as guest instructors include Ian Donaldson, QC, Leonard T. Doust, QC and Glen Ridgway, QC.

If you would like further information about the in-house advocacy workshop or if you have any questions, please contact Deb, Jaia or me.

## Discipline Sanctions Project

One of the core regulatory responsibilities of Law Society hearing panels is the imposition of sanctions on lawyers against whom adverse determinations are made at hearings. The sanctioning process plays an integral role in the Law Society's mandate to protect the public interest in the administration of justice. A working group of Benchers and staff have been considering whether panel members would benefit from additional guidance in this area, beyond what is currently provided by way of panel pool training and counsel submissions made at hearing. The working group considered various models employed in other jurisdictions including other provinces in Canada, the United States and the United Kingdom. They concluded that the development and adoption of a Statement of Principles would benefit panels, and in particular non-lawyer members, by providing them with general guidance as part of a principled approach to sanctioning without pre-determining outcomes in a particular case. The working group is in the process of drafting a Statement of Principles, feedback on which may be sought from select non-Benchers lawyers who regularly appear for respondents. Once finalized, the Statement of Principles will be presented to the Benchers for review, discussion and approval.

The topic of the last Federation of Law Societies bi-annual conference in April in Regina was *Discipline 20/20*. The program for the conference was a wide-ranging review of discipline structures and processes employed by Law Societies across Canada. As part of the program, Deb Armour provided an overview of the discipline sanctions project, including the rationale for the project, specific progress to-date and plans for further development. We received very positive feedback, including views expressed by other jurisdictions to the effect that adoption of principles together with formal guidelines would be a useful and positive tool in ensuring consistent and fair adjudicative processes.

## 2014 Family Law Justice Summit

In 2013, the Legislature enacted the *Justice Reform and Transparency Act*. It created several consultative processes that empower planning across the justice system and to provide a mechanism for dialogue about sector-wide performance. One of the processes created is the requirement to hold, at least annually, a Justice Summit "to facilitate innovation in, and collaboration across, the justice and public safety sector". The first two summits (hosted at UBC in March and November 2013) focused on the criminal justice system, and were attended by all the major justice system stakeholders in British Columbia.



The first 2014 summit is scheduled for May 4 and 5 at UBC, and will focus on family justice. This summit aims to build on the work of the Action Committee on Access to Justice, and to ask what specific steps are needed to: achieve earlier resolutions and more informed participants; to expand out-of-court resolution; to help the courts better meet the needs of families experiencing relationship breakdown; to change the “culture” of family law in BC; to identify the desired outcomes of successful reform; and to identify goals and objectives to achieve by 2017.

The Law Society has been involved with the summits since their inception. I moderated the first two summits, and at the time of writing am preparing to assume that role again at the May summit. Michael Lucas, Manager, Policy & Legal Services and I both sit on the Summit Planning Steering Committee. President Lindsay will be acting as a facilitator during the summit, which will also be attended by Bencher Nancy Merrill and Life Bencher Richard Stewart, QC. President Lindsay, Michael and I will be able to provide more detail about the May Summit at the Bencher meeting.

## **Communications Award**

Congratulations to Robyn Crisanti, our former Manager, Communications and Public Affairs, Carol Oakley, Communications Coordinator and Diana Papove, Project Coordinator for winning the 2014 International Association of Business Communication Gold Quill Award of Excellence in Change Communication for successfully designing and implementing the Law Societies’ Project Leo. The Gold Quill Award recognizes and awards excellence in strategic communications - honoring the dedication, innovation and passion of communicators from all over the world.

Project Leo was a major staff driven project launched in 2012 to design, develop and implement an organization-wide integrated information management tool to improve how we create, manage, share and store information at the Law Society. This was the largest and most complex undertaking of its kind in the history of the Law Society, requiring thousands of person hours of work and involving every single Law Society employee. As a result, we’ve greatly enhanced our overall sense of teamwork and execution at all levels of the organization.

Throughout this two-year project, our Leo change management team maintained a transparent, creative and educational change management approach, focusing on

opportunities for employee engagement and feedback. It's great to see the efforts of this team recognized by their peers.

## **Trinity Western University – Special General Meeting**

A Notice to the Profession was sent out on April 30 to advise members that the requirements for a Special General Meeting had been met, and that formal notice of the meeting will be circulated once a date has been set. At the time of writing, we are working to finalize a date and logistics for the meeting. President Lindsay and I will be available to answer any questions you might have about the process and plans for the Special General Meeting.

## **Legal Services Regulatory Framework Task Force**

The first meeting of the newly constituted Legal Services Regulatory Framework Task Force chaired by Art Vertlieb, QC is scheduled for Friday, May 2. At that meeting, a work plan will be discussed and initial priorities established. We look forward to supporting the work of this Task Force throughout the balance of this year and into next year.

Timothy E. McGee  
Chief Executive Officer

# **REDACTED MATERIALS**

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