



**The Law Society  
of British Columbia**

**Financial Statements**

December 31, 2020

# **CONTENTS**

## **Management Discussion and Analysis**

### **General and Special Compensation Funds**

Auditor's Report

Fund Statement of Financial Position

Fund Statement of Changes in Net Assets

Fund Statement of Revenue and Expenses

Fund Statement of Cash Flows

Notes to Fund Financial Statements

### **Lawyers Insurance Fund**

Auditor's Report

Consolidated Fund Statement of Financial Position

Consolidated Fund Statement of Revenue and Expenses

Consolidated Fund Statement of Changes in Net Assets

Consolidated Fund Statement of Cash Flows

Notes to Consolidated Fund Financial Statements

## **Management Discussion and Analysis**

The Law Society of British Columbia accounts for its financial activities through three separate funds: the General Fund, the Special Compensation Fund and the Lawyers Indemnity Fund. Society management has the responsibility for assisting the Benchers in fulfilling the Society's mandate, while ensuring that operating expenditures are closely controlled and that appropriate accounting and internal controls are maintained. The 2020 audited financial statements for the three funds are set out in this report. The statements are presented in accordance with the presentation and disclosure standards of the Chartered Professional Accountants of Canada.

During 2020, in addition to the general oversight by the Benchers, the Finance and Audit Committee assisted the Benchers in ensuring that management and staff properly managed and reported on the financial affairs of the Society. The oversight by the Benchers and the Finance and Audit Committee included:

- Reviewing periodic financial statements of the General, Special Compensation and Consolidated Lawyers Indemnity Fund
- Reviewing investment performance as managed by the appointed investment managers
- Reviewing with the Law Society's auditors their approach, scope and audit results
- Reviewing the annual Audit Report prepared by the Law Society auditors
- Recommending the 2020 practice fees and insurance assessments, and reviewing corresponding budgets
- Reviewing the enterprise risk management plan

## **General Fund**

### **Overview**

Overall, the 2020 results for the General Fund resulted in an operating surplus of \$3.8 million, after the transfer of net assets from the trust assurance program to the Lawyers Indemnity Fund. Revenues were higher than expected, particularly in the areas of practice fees, application fees, and trust administration fees. Operating expenses decreased over the prior year primarily due to lower staffing costs, and decreased travel, event, and office costs as a result of the COVID-19 pandemic.

### **Revenues**

General Fund revenue was \$34.6 million, \$500,000 higher than 2019 due to the growth in the number of lawyers, an increase in the practice fee, and increased trust administration fees. During 2020, net growth in the number of full-time equivalent practising lawyers was 2.6% resulting in a total of 12,893 full fee paying equivalent lawyers for the year, compared to 12,572 in 2019. Professional Legal Training Course (PLTC) enrolment revenue was lower in 2020, with 621 PLTC students during the year, compared with 656 in the prior year. The trust administration fee (TAF) revenue increased 11% due to an increase in the number of transactions arising from an increase in activity in the real estate

market, mainly in the last half of the year. Other income decreased over 2019 due to decreased insurance recoveries.

The Lawyers Indemnity Fund contributed \$1.9 million to the General Fund for co-sponsored program costs and for general program and administrative expenses attributable to operations.

## **Expenses**

The 2020 General Fund expenses decreased by \$421,000 (1.3%) to \$32.1 million, compared to \$32.5 million in 2019.

Bencher Governance and Support expenses decreased by \$901,000 over 2019 due to travel restrictions, the cancellation of in person events and increased virtual meetings, as a result of the COVID-19 pandemic.

Communication and Information Services total costs were the similar to 2019, with decreased staffing costs partially offset by increased software and hardware computer maintenance costs.

Education and Practice expenses were lower than 2019 by \$309,000, with decreases in staffing costs.

General and administration costs increased \$468,000 over 2019, mainly due the movement of costs into this program area in 2020 that were included in other program areas last year.

Policy and Legal Services expenses increased \$285,000 over 2019, with increases in external counsel fees for external litigation.

Regulation operating expenses increased \$111,000 over 2019, primarily due to higher external counsel fees and increased staffing costs.

Occupancy costs decreased \$469,000 from 2019, with lower property taxes and building maintenance costs.

## **Net Assets**

Overall, the General Fund remains financially sound. As of December 31, 2020, net assets in the General Fund were \$30 million. The net assets include \$3.7 million in capital funding for planned capital projects related to the 845 Cambie Street building and workspace improvements for Law Society operations. Pursuant to reserve policy, during the year \$700,000 of net assets related to trust assurance was transferred to the Lawyers Indemnity Fund for Part B coverage. After this transfer, at December 31, 2020, the net assets include \$2.1 million of trust assurance reserves. The remaining General Fund net assets are \$24.2 million, of which \$13 million is invested in capital assets, mainly the 845 Cambie Street building, and \$11.3 million is working capital.

## **Special Compensation Fund**

### **Overview**

Previously, the Special Compensation Fund, maintained pursuant to Section 31 of the *Legal Profession Act*, was financed by members' annual assessments, and claims were recorded net of recoveries when they had been approved for payment. In 2012, the *Legal Profession Amendment Act, 2012* repealed section 31 of the *Legal Profession Act*. In addition, Section 23 of the *Legal Profession Act* was amended to remove the requirement that practising lawyers pay the Special Compensation Fund assessment. Section 50 of the *Legal Profession Amendment Act 2012* provides for the transfer of unused reserves that remain within the Special Compensation Fund to the Lawyers Indemnity Fund for the purposes of the indemnification program, which has provided coverage since 2004 for dishonest appropriation of money or other property entrusted to and received by lawyers. In 2017, pursuant to Section 50 of the *Legal Profession Amendment Act*, \$1 million of unused reserves were transferred to the Lawyers Indemnity Fund and the remainder was held in the Special Compensation Fund to offset expected external counsel fees. At December 31, 2020, the unused Special Compensation Fund reserves were depleted and the Special Compensation Fund was wound up.

### **Revenues/Expenses**

There were no claims costs in 2020 since the Lawyers Indemnity Fund has been providing coverage for dishonest appropriation of funds by lawyers since 2004. During the year, a small amount of interest income was earned. In addition, external counsel costs of \$58,800 were incurred during the year.

### **Net Assets**

At the end of 2020, the Special Compensation Fund net assets were \$nil.

## **Lawyers Indemnity Fund**

### **Overview**

The Lawyers Indemnity Fund remains in a strong financial position at the end of 2020. Revenue from annual assessments was slightly higher than 2019 due to additional covered members, but investment income was lower than the previous year with economic uncertainty.

### **Revenues**

The 2020 indemnity assessment remained at \$1,800 per full-time lawyer, resulting in total revenue of \$16.5 million, compared to \$16.1 million in 2019.

During 2020, the long term investment portfolio earned a return of 7.5% during the year. All increases in the market value of the investment portfolio have been recognized through the statement of revenue and expenses in accordance with Canadian accounting standards for not-for-profit organizations.

## **Expenses**

In 2020, the Lawyers Indemnity Fund general operating costs, including the \$1.9 million contribution to the General Fund, but excluding claims payments and unallocated loss adjustment expenses (ULAE), were \$7.3 million, compared to \$6.9 million in 2019. The increase is primarily due to increased external counsel, accounting and consultants' fees relating to the wind-up of the LSBC Captive Insurance Company Ltd. (the "Captive") and the creation of the BC Lawyers Indemnity Association ("BCLIA"), and the rebranding of LIF.

The net actuarial provision for settlement of claims for the year was \$11.4 million, a decrease of \$1.5 million from 2019. The 2020 claims provision was lower due to an adjustment to required reserves for claims relating mainly to prior years. The provision for claims liabilities on the balance sheet at the end of 2020 was \$76.4 million, compared to \$76.5 million at the end of 2019.

## **Net Assets**

As of December 31, 2020, LIF net assets were \$111.1 million, which includes \$17.5 million internally restricted for Part B claims, leaving \$93.6 million in unrestricted net assets.

## **Other Matters**

Effective January 1, 2020, Section 30 of the *Legal Profession Act* was amended to convert the "insurance" program to an "indemnification" program. New Section 30.1 provides that the Law Society or any subsidiary (except for a captive insurer) that operates such a program is not an insurer as defined in the *Financial Institutions Act* or the *Insurance Act*, nor are they carrying on insurance business in B.C.

Effective January 1, 2020, the Lawyers Insurance Fund became the Lawyers Indemnity Fund. The Captive was wound up on December 31, 2020, and all of its assets and liabilities have been transferred to the Law Society.

As of January 1, 2021, BCLIA was incorporated to issue the indemnity policies to covered lawyers. As a subsidiary of the Society that is exempt from regulation by the BC Financial Services Authority, BCLIA will assume from the Society the rights and obligations of the Captive under all outstanding professional liability policies, except the Business Innocent Covered Party (BIC) policies.

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

Fund Financial Statements  
**December 31, 2020**



## Independent auditor's report

To the Members of The Law Society of British Columbia

---

### Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Law Society of British Columbia – General and Special Compensation Funds (the Society's General and Special Compensation Funds) as at December 31, 2020 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

#### What we have audited

The Society's General and Special Compensation Funds financial statements comprise:

- the fund statement of financial position as at December 31, 2020;
- the fund statement of changes in net assets for the year then ended;
- the fund statement of revenue and expenses for the year then ended;
- the fund statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

---

### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of the Society's General and Special Compensation Funds' in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

---

PricewaterhouseCoopers LLP  
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7  
T: +1 604 806 7000, F: +1 604 806 7806

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.





---

## **Other information**

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

---

## **Responsibilities of management and those charged with governance for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Society's General and Special Compensation Funds' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Society's General and Special Compensation Funds or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Society's General and Special Compensation Funds' financial reporting process.

---

## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's General and Special Compensation Funds' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Society's General and Special Compensation Funds' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Society's General and Special Compensation Funds to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**/s/PricewaterhouseCoopers LLP**

Chartered Professional Accountants

Vancouver, British Columbia  
March 5, 2021

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

## Fund Statement of Financial Position

As at December 31, 2020

			2020	2019
	General Fund \$	Special Compensation Fund \$	Total \$	Total \$
<b>Assets</b>				
<b>Current assets</b>				
Cash (note 2)	24,919,747	-	24,919,747	37,681,219
Unclaimed trust funds (note 2)	2,144,416	-	2,144,416	2,215,017
Accounts receivable and prepaid expenses (note 3)	1,871,173	-	1,871,173	1,926,518
Due from Lawyers Indemnity Fund (note 9)	9,015,334	-	9,015,334	6,082,021
	37,950,670	-	37,950,670	47,904,775
<b>Non-current assets</b>				
Cambie Street property – net (note 4 (a))	11,735,274	-	11,735,274	12,212,617
Other property and equipment – net (note 4 (b))	1,296,660	-	1,296,660	1,236,982
Intangible assets – net (note 4 (c))	518,908	-	518,908	498,909
Long-term loan receivable (note 5)	451,725	-	451,725	365,469
	51,953,237	-	51,953,237	62,218,752
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities (note 6)	5,436,275	-	5,436,275	7,110,499
Liability for unclaimed trust funds (note 2)	2,144,416	-	2,144,416	2,215,017
Current portion of building loan payable (note 8)	500,000	-	500,000	500,000
Deferred revenue (note 2)	13,718,957	-	13,718,957	25,431,367
Deposits	55,805	-	55,805	56,005
	21,855,453	-	21,855,453	35,312,888
<b>Building loan payable</b> (notes 8 and 9)	100,000	-	100,000	600,000
	21,955,453	-	21,955,453	35,912,888
<b>Net assets</b>				
Unrestricted (note 7)	29,997,784	-	29,997,784	26,305,864
	51,953,237	-	51,953,237	62,218,752

**Commitments** (note 14)

**Approved by**



\_\_\_\_\_  
President



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

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

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

Fund Statement of Changes in Net Assets

For the year ended December 31, 2020

			2020	2019
	General Fund - Unrestricted \$	Special Compensation Fund - Unrestricted \$	Total \$	Total \$
<b>Net assets – Beginning of year</b>	26,247,367	58,497	26,305,864	23,822,765
Net excess (deficiency) of revenue over expenses for the year	3,750,417	(58,497)	3,691,920	2,483,099
<b>Net assets – End of year</b> (note 7)	29,997,784	-	29,997,784	26,305,864

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

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

## Fund Statement of Revenue and Expenses

For the year ended December 31, 2020

			2020	2019
	General Fund \$	Special Compensation Fund \$	Total \$	Total \$
<b>Revenue</b>				
Practice fees	25,246,037	-	25,246,037	24,212,553
Trust administration fees	3,861,523	-	3,861,523	3,470,785
Enrolment fees	1,753,250	-	1,753,250	1,882,422
E-filing revenue	745,535	-	745,535	766,429
Fines, penalties and recoveries	405,820	-	405,820	403,378
Application fees	698,950	-	698,950	616,188
Investment income (note 9)	435,256	308	435,564	633,151
Other income	451,251	-	451,251	1,118,950
Rental revenue	1,039,101	-	1,039,101	1,043,490
	<u>34,636,723</u>	<u>308</u>	<u>34,637,031</u>	<u>34,147,346</u>
<b>Expenses</b>				
Benchers governance and support	792,357	-	792,357	1,693,301
Communications and publications	483,299	-	483,299	700,378
Information services	1,843,335	-	1,843,335	1,675,716
Education and practice				
Credentials	822,638	-	822,638	839,436
Member services	902,279	-	902,279	902,539
Membership assistance programs	65,778	-	65,778	78,360
Practice advice	788,089	-	788,089	665,597
Practice standards	384,526	-	384,526	644,107
Professional legal training course and education	2,586,170	-	2,586,170	2,728,522
General and administrative				
Finance	1,247,656	-	1,247,656	1,191,870
Amortization of other property and equipment	521,923	-	521,923	446,470
General administration	1,609,234	-	1,609,234	1,283,743
Human resources	624,260	-	624,260	646,979
Records management and library	281,327	-	281,327	247,591
Policy and legal services				
Policy, ethics and tribunal counsel	2,016,002	-	2,016,002	1,985,329
External litigation and interventions	339,300	-	339,300	110,678
Unauthorized practice	301,098	-	301,098	275,274
Regulation				
Custodianship costs	1,645,616	-	1,645,616	1,617,402
Discipline	2,764,687	-	2,764,687	2,892,588
Professional conduct – intake and investigations	6,398,057	-	6,398,057	5,597,760
Forensic accounting	869,320	-	869,320	818,794
Trust assurance	2,777,950	-	2,777,950	2,975,003
Occupancy costs, net of tenant recoveries	2,006,925	-	2,006,925	2,475,257
	<u>32,071,826</u>	<u>-</u>	<u>32,071,826</u>	<u>32,492,694</u>
Carried forward	32,071,826	-	32,071,826	32,492,694

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

Fund Statement of Revenue and Expenses ...continued

For the year ended December 31, 2020

			2020	2019
	General Fund \$	Special Compensation Fund \$	Total \$	Total \$
Brought forward	32,071,826	-	32,071,826	32,492,694
Special Compensation Fund General and administrative costs	-	58,805	58,805	103,608
	32,071,826	58,805	32,130,631	32,596,302
<b>Costs recovered Lawyers Indemnity Funds</b>				
Co-sponsored program costs	(657,991)	-	(657,991)	(701,657)
Program and administrative costs	(1,227,529)	-	(1,227,529)	(1,390,398)
	(1,885,520)	-	(1,885,520)	(2,092,055)
	30,186,306	58,805	30,245,111	30,504,247
<b>Net excess (deficiency) of revenue over expenses for the year before contribution to Lawyers Indemnity Fund</b>	4,450,417	(58,497)	4,391,920	3,643,099
<b>Contribution from Trust Assurance Net Assets to Lawyers Indemnity Fund</b> (note 7)	700,000	-	700,000	1,160,000
<b>Net excess (deficiency) of revenue over expenses for the year</b>	3,750,417	(58,497)	3,691,920	2,483,099

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

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

## Fund Statement of Cash Flows

For the year ended December 31, 2020

			2020	2019
	General Fund \$	Special Compensation Fund \$	Total \$	Total \$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net excess (deficiency) of revenue over expenses for the year	3,750,417	(58,497)	3,691,920	2,483,099
Items not affecting cash				
Amortization of Cambie Street building and tenant improvements	951,913	-	951,913	986,773
Amortization of other property and equipment	367,431	-	367,431	327,488
Amortization of intangible assets	154,492	-	154,492	118,281
Amortization of deferred capital contributions	-	-	-	(741)
Reclass and adjustment of capital assets	-	-	-	13,216
Loss on disposal of other property and equipment	111	-	111	3,483
Contributions to Lawyers Indemnity Fund	700,000	-	700,000	1,160,000
	5,924,364	(58,497)	5,865,867	5,091,599
Decrease (increase) in current assets				
Unclaimed trust funds	70,601	-	70,601	(188,675)
Accounts receivable and prepaid expenses	55,347	-	55,347	(448,303)
(Decrease) increase in current liabilities				
Accounts payable and accrued liabilities	(1,674,224)	-	(1,674,224)	564,081
Liability for unclaimed trust funds	(70,601)	-	(70,601)	188,675
Deferred revenue	(11,712,410)	-	(11,712,410)	1,194,148
Courthouse Libraries BC Fund	-	-	-	-
Deposits	(200)	-	( 200)	900
	(7,407,123)	(58,497)	(7,465,620)	6,402,425
<b>Financing activities</b>				
Decrease in building loan payable	(500,000)		(500,000)	(500,000)
Interfund transfers	(3,691,810)	58,497	(3,633,313)	9,639,694
	(4,191,810)	58,497	(4,133,313)	9,139,694
<b>Investing activities</b>				
Purchase of property and equipment	(901,790)	-	(901,790)	(634,757)
Purchase of intangible assets	(174,492)	-	(174,492)	(240,287)
Long-term loan receivable	(86,257)	-	(86,257)	(89,078)
	(1,162,539)	-	(1,162,539)	(964,122)
<b>(Decrease) increase in cash</b>	(12,761,472)	-	(12,761,472)	14,577,997
<b>Cash – Beginning of year</b>	37,681,219	-	37,681,219	23,107,222
<b>Cash – End of year</b>	24,919,747	-	24,919,747	37,685,219
<b>Supplementary cash flow information</b>				
Interest paid	10,410	-	10,410	25,780
Interest income received	456,601	-	456,601	646,407

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

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

Notes to Fund Financial Statements

December 31, 2020

---

## 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 Society is a not-for-profit organization.

The funds covered in these fund financial statements are for the Society's General Fund and Special Compensation Fund with the following activities:

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 Indemnity Fund (including its wholly owned subsidiary, LSBC Captive Insurance Company Ltd.). This includes collecting revenues associated with practice fees, trust administration fees, enrollment fees, and various other administrative fees and penalties used to cover the costs of the Society to regulate the legal profession and educate and enforce adherence of its members to act within the rules of professional conduct for lawyers.

The Special Compensation Fund was maintained by the Society pursuant to Section 31 of the Legal Profession Act (the LPA). The Special Compensation Fund claims were recorded net of recoveries from the Special Compensation Fund's insurers when they were 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 Indemnity Fund. Additionally, Section 23 of the LPA was amended to remove the requirement that practising lawyers pay the Special Compensation Fund assessment. Accordingly, for 2020, the per member Special Compensation Fund assessment remained at \$nil (2019 – \$nil) and at December 31, 2020 the Special Compensation Fund was wound up.

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 Indemnity Fund.

The Society's Lawyers Indemnity Fund is presented separately in consolidated fund financial statements, including the Society's wholly owned LSBC Captive Insurance Company Ltd. (the Captive). The Lawyers Indemnity Fund underwrites the program by which errors and omissions insurance is provided to members of the Society. The Lawyers Indemnity Fund's consolidated fund financial statements provide further detail on the various insurance coverages provided.



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

Notes to Fund Financial Statements

**December 31, 2020**

---

The COVID-19 global pandemic has resulted in measures taken by various governments, including emergency measures to combat the spread of the virus, which has affected economic activity. The Law Society has taken a number of measures to monitor and mitigate the effects of COVID-19, such as implementing safety and health measures, effectively transforming the operations to a virtual workplace, and providing support to lawyers who may be significantly affected by the pandemic through targeted initiatives. At this stage, there has not been a decline in fees or assessment revenues as a result of the pandemic and we will continue to monitor this closely.

## **2 Significant accounting policies**

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

### **Allocated administrative expenses**

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

### **Cash**

Cash comprises cash on hand and held with a Canadian chartered bank.

### **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 accounts payable and accrued liabilities correspond to their carrying values due to their short-term nature.

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

Notes to Fund Financial Statements

December 31, 2020

---

## 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
Building – Envelope	7% per annum
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 practice 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. The Society began billing practice fees in two instalments beginning with the collection of the 2021 practice fees. At year-end only one practice fee instalment has been collected. Revenue will be recognized on a monthly basis as earned. Surplus funds are invested in a high interest savings account.

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

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

Notes to Fund Financial Statements

December 31, 2020

---

## Unclaimed trust funds

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

## Use of estimates

The preparation of fund 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 fund financial statements and the reported amounts of certain revenues and expenses during the year. Actual results could differ from these estimates.

The Society continues to monitor these estimates; however, they have not to date been significantly impacted by the economic uncertainty related to COVID 19.

## 3 Accounts receivable and prepaid expenses

Accounts receivable are presented net of the allowance for doubtful accounts of \$1,224,884 (2019 – \$1,106,645).

## 4 Property, equipment and intangible assets

a) 845 Cambie Street property

	<b>2020</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	<b>\$</b>	<b>amortization</b>	<b>\$</b>
		<b>\$</b>	
Land	4,189,450	-	4,189,450
Buildings and equipment	16,825,340	10,623,021	6,202,319
Leasehold improvements	7,813,202	6,549,917	1,263,285
Tenant improvements	826,619	746,399	80,220
	<u>29,654,611</u>	<u>17,919,337</u>	<u>11,735,274</u>

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

Notes to Fund Financial Statements

December 31, 2020

	<b>2019</b>		
	<b>Cost</b> \$	<b>Accumulated amortization</b> \$	<b>Net</b> \$
Land	4,189,450	-	4,189,450
Buildings and equipment	16,706,689	10,094,290	6,612,399
Leasehold improvements	7,639,317	6,331,689	1,307,628
Tenant improvements	826,619	723,479	103,140
	<b>29,362,075</b>	<b>17,149,458</b>	<b>12,212,617</b>
b) Other property and equipment			
	<b>2020</b>		
	<b>Cost</b> \$	<b>Accumulated amortization</b> \$	<b>Net</b> \$
Furniture and fixtures	2,970,009	2,259,380	710,629
Computer hardware	1,908,049	1,325,775	582,274
Artwork and collectibles	49,161	45,405	3,756
Law libraries – at nominal value	1	-	1
	<b>4,927,220</b>	<b>3,630,560</b>	<b>1,296,660</b>
	<b>2019</b>		
	<b>Cost</b> \$	<b>Accumulated amortization</b> \$	<b>Net</b> \$
Furniture and fixtures	2,920,478	2,118,195	802,283
Computer hardware	1,536,233	1,105,291	430,942
Artwork and collectibles	49,161	45,405	3,756
Law libraries – at nominal value	1	-	1
	<b>4,505,873</b>	<b>3,268,891</b>	<b>1,236,982</b>

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

Notes to Fund Financial Statements

December 31, 2020

c) Intangible assets

	<b>2020</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	<b>\$</b>	<b>amortization</b>	<b>\$</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Computer software	2,259,177	1,762,415	496,762
Website development	110,733	88,587	22,146
	<u>2,369,910</u>	<u>1,851,002</u>	<u>518,908</u>
	<b>2019</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	<b>\$</b>	<b>amortization</b>	<b>\$</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Computer software	2,084,686	1,630,070	454,616
Website development	110,733	66,440	44,293
	<u>2,195,419</u>	<u>1,696,510</u>	<u>498,909</u>

## 5 Long-term loan receivable

In 2018, the Society agreed to participate with other Canadian law societies in a collective loan of \$2 million to the Canadian Legal Information Institute (CanLII), a wholly owned subsidiary of the Federation of Law Societies of Canada (FLSC). The loan is part of the financing for the purchase by CanLII of LexUM, a corporation providing support services to CanLII for the implementation of CanLII's legal information website. The Law Society's participation in this loan was \$276,390 in 2018. Part of the Society's support of this transaction are annual repayable capital payments of \$89,079 in 2019, \$86,257 in 2020 and \$83,435 in 2021 to fund three annual balance of sale payments to the vendors of Lexum as provided in a Subordination and Commitment Agreement. Amounts advanced under this agreement earn interest at the same rate as the amount advanced under the collective loan. In 2020, the Society's total participation in this loan is \$451,725 (2019 – \$365,469). The loan has a five-year term with an annual interest rate of 4.74%, payable annually. The interest earned in the current year relating to the loan was \$21,345.

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

Notes to Fund Financial Statements

December 31, 2020

---

## 6 Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include the following amounts collected on behalf of external organizations, but not yet paid:

	2020 \$	2019 \$
Advocate	193,193	331,487
Courthouse Libraries BC	1,707,199	2,775,015
Lawyers Assistance Program	423,184	791,161
Pro bono	191,603	355,733
CanLI	236,493	484,063
Federation of Law Societies	197,519	365,915

## 7 Unrestricted net assets

The General Fund unrestricted net assets include \$3,693,174 (2019 – \$3,000,219), which has been allocated to capital expenditures in accordance with the capital plan.

The General Fund unrestricted net assets also include \$2,072,034 (2019 – \$1,989,501), which has been appropriated for future trust assurance expenses. During the year, \$3,861,523 (2019 – \$3,470,785) in trust administration fee revenue was collected and \$3,078,990 (2019 – \$3,276,744) in trust assurance expenses were incurred.

Pursuant to the reserve policy, \$700,000 of the net assets related to trust assurance was transferred to the Lawyers Indemnity Fund for Part B coverage 2020 (2019 – \$1,160,000).

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

## Notes to Fund Financial Statements

December 31, 2020

The remaining General Fund net assets represent \$12,950,843 (2019 – \$12,848,509) invested in capital assets, and working capital of \$11,281,734 (2019– \$8,409,140), combining for a total unrestricted net asset amount of \$24,232,577 (2019 – \$21,257,649).

	(in 000s)					2020	2019
	Invested in capital \$	Working capital \$	Unrestricted \$	Trust assurance \$	Capital plan \$	Total \$	Total \$
Net assets – Beginning of year	12,849	8,409	21,258	1,989	3,000	26,247	23,663
Net (deficiency) excess of revenue over expenses before contribution to Lawyers Indemnity Fund	(1,474)	2,873	1,399	783	2,269	4,451	3,744
Contribution to Lawyers Indemnity Fund	-	-	-	(700)	-	(700)	(1,160)
Repayment of building loan payable (note 8)	500	-	500	-	(500)	-	-
Purchase of capital assets (note 4)	1,076	-	1,076	-	(1,076)	-	-
<b>Net assets – End of year</b>	<b>12,951</b>	<b>11,282</b>	<b>24,233</b>	<b>2,072</b>	<b>3,693</b>	<b>29,998</b>	<b>26,247</b>

## 8 Building loan payable

In 1992, the Benchers authorized the borrowing of monies from the Lawyers Indemnity Fund to fund the capital development of the Society’s buildings at 845 Cambie Street, Vancouver, BC. The loan is secured by the buildings, 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 Indemnity Fund investment portfolio. Interest paid on the building loan is disclosed in note 9. The outstanding building loan balance at year-end is \$600,000 (2019 – \$1.1 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 2020, principal of \$500,000 (2019 – \$500,000) was repaid. The loan will be paid off in total by 2022.

	2020 %	2019 %
Weighted average rate of interest	1.36	2.29

## 9 Interfund transactions

The operations of the General, Lawyers Indemnity 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 kept in the General Fund bank accounts or invested in a high interest savings account.

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

Notes to Fund Financial Statements

December 31, 2020

---

Amounts due to and from the Lawyers Indemnity Fund are due on demand and have no fixed terms of repayment. The Lawyers Indemnity Fund has authorized a loan facility of up to \$1 million, of which \$nil has been drawn down at December 31, 2020 (2019 – \$nil), to the General Fund to fund capital expenditures in accordance with the capital plan. The Lawyers Indemnity Fund has also authorized a loan facility of up to \$8 million, to the Special Compensation Fund, which is not expected to be used as the Special Compensation Fund is in the process of being wound up. As of December 31, 2020, no amounts have been drawn down from the facilities (2019 – \$nil).

Monthly interest on the Lawyers Indemnity 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 Indemnity Fund investment portfolio. The average bond yield for 2020 was 1.36% (2019 – 2.29%). The General Fund's net loan position includes the General Fund's building loan and other operating balances with the Lawyers Indemnity Fund. The net loan position fluctuates during the year as amounts are transferred between the General Fund, the Special Compensation Fund and the Lawyers Indemnity Fund to finance ongoing operations.

During 2020, interest of \$10,410 was paid on the building loan and interest revenue of \$202,807 was received from General Fund cash balances held by the Lawyers Indemnity Fund and \$308 was received from Special Compensation Fund cash balances held by the Lawyers Indemnity Fund for a net interest income of \$\$192,705.

During 2019, interest of \$25,780 was paid on the building loan and interest revenue of \$264,139 was received from General Fund cash balances held by the Lawyers Indemnity Fund and \$2,755 was received from Special Compensation Fund cash balances held by the Lawyers Indemnity Fund for a net interest income of \$241,114.

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

## 10 Special Compensation Fund claims and program changes

### 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, 2020, 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, and accordingly, at December 31, 2020 the Special Compensation Fund was wound up

For claims reported prior to May 1, 2004, the insurance bond provided that total claims attributable to the period in excess of \$25,000,000 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 10. As set out in note 1, claims reported after May 1, 2004 are subject to Part B coverage by the Lawyers Indemnity Fund.



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

Notes to Fund Financial Statements

December 31, 2020

---

## 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, 2020, expenses of \$nil (2019 – \$28,826) recorded at the carrying amount were incurred by the General Fund during the normal course of business with these law firms.

## 12 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 fulfill its objectives and meet its requirements.

## 13 Financial instruments

The General and Special Compensation Funds' financial instruments consist of cash, accounts receivable 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 \$26,169,122 (2019 – \$38,787,865). Credit risk arises from the possibility that a counterparty to an instrument fails to meet its obligations.

b) The Society's assets mainly consist of cash and therefore are not subject to any heightened credit risk as a result of COVID-19.

c) 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.

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

Notes to Fund Financial Statements

December 31, 2020

---

## 14 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 three fiscal years are:

	\$
2021	5,304
2022	5,304
2023	<u>2,652</u>
Total future minimum lease payments	<u>13,260</u>

For the year ended December 31, 2020, an amount of \$5,304 representing payments under operating leases was expensed (2019 – \$6,037).

**The Law Society of British  
Columbia – Lawyers  
Indemnity Fund**

Consolidated Fund Financial Statements  
**December 31, 2020**



## Independent auditor's report

To the Members of The Law Society of British Columbia – Lawyers Indemnity Fund

---

### Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of The Law Society of British Columbia – Lawyers Indemnity Fund and its subsidiary (together, the Fund) as at December 31, 2020 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

### What we have audited

The Fund's consolidated financial statements comprise:

- the consolidated fund statement of financial position as at December 31, 2020;
  - the consolidated fund statement of revenues and expenses for the year then ended;
  - the consolidated fund statement of changes in net assets for the year then ended;
  - the consolidated fund statement of cash flows for the year then ended; and
  - the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.
- 

### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

---

### Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

PricewaterhouseCoopers LLP  
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7  
T: +1 604 806 7000, F: +1 604 806 7806



Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

---

### **Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

---

### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error,



as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Fund to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**/s/PricewaterhouseCoopers LLP**

Chartered Professional Accountants

Vancouver, British Columbia  
March 5, 2021

# The Law Society of British Columbia – Lawyers Indemnity Fund

## Consolidated Fund Statement of Financial Position

As at December 31, 2020

	2020 \$	2019 \$
<b>Assets</b>		
<b>Cash</b>	3,029,869	927,269
<b>Accounts receivable</b> – net of allowance (note 3)	439,339	312,371
<b>Prepaid expenses</b>	56,434	45,945
<b>Short-term investments</b> (note 5)	515,438	7,546,680
<b>Member deductibles</b>	1,270,504	1,442,764
<b>General Fund building loan</b> (note 7)	600,000	1,100,000
<b>Investments</b> (note 6)	213,187,539	191,282,480
	<u>219,099,123</u>	<u>202,657,509</u>
<b>Liabilities</b>		
<b>Accounts payable and accrued liabilities</b> (notes 4 and 8)	1,981,060	2,141,921
<b>Deferred revenue</b>	8,371,389	8,143,703
<b>Due to General Fund</b> (note 10)	9,015,334	6,023,524
<b>Due to Special Compensation Fund</b> (note 10)	-	58,496
<b>Provision for claims</b> (note 9)	76,375,620	76,509,061
<b>Provision for ULAE</b> (note 9)	12,222,000	11,860,000
	<u>107,965,403</u>	<u>104,736,705</u>
<b>Net assets</b>		
<b>Unrestricted net assets</b>	93,633,720	80,420,804
<b>Internally restricted net assets</b> (note 11)	17,500,000	17,500,000
	<u>111,133,720</u>	<u>97,920,804</u>
	<u>219,099,123</u>	<u>202,657,509</u>

**Commitments** (note 10)

**Approved by**



\_\_\_\_\_  
President



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

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

# The Law Society of British Columbia – Lawyers Indemnity Fund

## Consolidated Fund Statement of Revenue and Expenses

For the year ended December 31, 2020

	2020 \$	2019 \$
<b>Revenue</b>		
Annual assessments	16,518,443	16,140,477
Investment income (note 6)	6,742,564	7,849,782
Other income	44,149	76,230
	<u>23,305,156</u>	<u>24,066,489</u>
<b>Indemnity expenses</b>		
Actuary, consultant and investment manager fees	1,043,028	839,918
Allocated office rent from General Fund	323,829	323,829
Contribution to program and administrative costs of General Fund	1,228,752	1,391,788
Insurance	379,933	394,044
Office	484,463	331,579
Premium taxes	11,084	9,056
Provision for settlement of claims (note 9)	11,369,370	12,896,115
Provision for ULAE (note 9)	362,000	1,081,000
Salaries, wages and benefits	3,073,329	2,913,092
	<u>18,275,788</u>	<u>20,180,421</u>
<b>Loss prevention expenses</b>		
Contribution to co-sponsored program costs of General Fund	657,991	701,657
	<u>18,933,779</u>	<u>20,882,078</u>
<b>Excess (deficiency) of revenue over expenses before the following</b>	4,371,377	3,184,411
<b>Fair value increase in investments</b> (note 6)	8,146,950	16,661,358
	<u>12,518,327</u>	<u>19,845,769</u>
<b>Provision for income taxes</b>	5,411	5,630
	<u>12,512,916</u>	<u>19,840,139</u>
<b>Contribution from Trust Assurance Net Assets in General Fund</b> (note 10)	700,000	1,160,000
	<u>13,212,916</u>	<u>21,000,139</u>

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



# The Law Society of British Columbia – Lawyers Indemnity Fund

## Consolidated Fund Statement of Changes in Net Assets

For the year ended December 31, 2020

---

			2020	2019
	Unrestricted \$	Internally restricted \$	Total \$	Total \$
<b>Net assets – Beginning of year</b>	80,420,804	17,500,000	97,920,804	76,920,665
Excess of revenue over expenses for the year	13,212,916	-	13,212,916	21,000,139
<b>Net assets – End of year</b>	93,633,720	17,500,000	111,133,720	97,920,804

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

# The Law Society of British Columbia – Lawyers Indemnity Fund

## Consolidated Fund Statement of Cash Flows

For the year ended December 31, 2020

	2020 \$	2019 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Excess of revenue over expenses for the year	13,212,916	21,000,139
Items not affecting cash		
Unrealized gain on investments	(4,215,946)	(15,803,698)
Realized gain on disposal of investments	(3,931,005)	(857,660)
Pooled distributions from investments	(6,858,317)	(7,826,035)
Contribution from General and Special Funds	700,000	1,160,000
	<u>(1,092,352)</u>	<u>(2,327,254)</u>
(Increase) decrease in assets		
Accounts receivable	(126,969)	(18,014)
Prepaid expenses	(10,489)	(13,152)
Short-term investments	7,031,242	(155,959)
Members' share of provision for claims	172,260	(149,677)
(Decrease) increase in liabilities		
Accounts payable and accrued liabilities	(160,859)	558,024
Deferred revenue	227,686	186,092
Provision for claims	(133,442)	2,252,844
Provision for ULAE	362,000	1,081,000
	<u>6,269,077</u>	<u>1,413,904</u>
<b>Investing activities</b>		
Decrease in General Fund building loan	500,000	500,000
Purchase of investments	(90,663,440)	(7,587,810)
Proceeds from disposal of investments	83,763,650	7,692,106
	<u>(6,399,790)</u>	<u>604,296</u>
<b>Financing activities</b>		
Interfund transfers (note 10)	2,233,313	(11,959,695)
<b>Increase (decrease) in cash</b>	<u>2,102,600</u>	<u>(9,941,495)</u>
<b>Cash – Beginning of year</b>	<u>927,269</u>	<u>10,868,764</u>
<b>Cash – End of year</b>	<u>3,029,869</u>	<u>927,269</u>
<b>Supplementary cash flow information</b>		
Interest paid	<u>203,115</u>	<u>250,102</u>
Interest income received	<u>44,750</u>	<u>144,697</u>

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

# The Law Society of British Columbia – Lawyers Indemnity Fund

## Notes to Consolidated Fund Financial Statements

December 31, 2020

---

### 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 Society's fund covered in these consolidated fund financial statements is for the Lawyers Indemnity Fund (the Fund) and the Society's only subsidiary, LSBC Captive Insurance Company (the Captive), that together comprise the Society's indemnification program.

The Society's General Fund and Special Compensation Fund are presented in separate fund financial statements.

The Fund is maintained by the Society pursuant to Section 30 of the Legal Profession Act. The Captive is considered assessable for income tax under current legislation and was wound up at December 31, 2020 and is no longer subject to regulation by the BC Financial Services Authority (BCFSA). Effective January 1, 1990, the Fund underwrites the program by which professional liability indemnity is provided to eligible members of the Society.

The COVID-19 global pandemic has resulted in measures taken by various governments, including emergency measures to combat the spread of the virus, which has affected economic activity. The Law Society has taken a number of measures to monitor and mitigate the effects of COVID-19, such as implementing safety and health measures, effectively transforming the operations to a virtual workplace, and providing support lawyers who may be significantly affected by the pandemic through targeted initiatives. At this stage, there has not been a decline in fees or assessment revenues as a result of the pandemic and we will continue to monitor this closely.

#### 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 BC Lawyers Compulsory Professional Liability Indemnification Policy (the Policy) as follows:

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

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

# The Law Society of British Columbia – Lawyers Indemnity Fund

## Notes to Consolidated Fund Financial Statements

December 31, 2020

---

For the 2020 and 2019 policy years, the Society and the Captive have obtained stop-loss reinsurance in the amount of \$12 million to cover aggregate payments over \$25 million for Parts A and C of the Policy. This limit is co-indemnified 80/20 with the reinsurer paying 80% of losses over \$25 million to a maximum of \$12 million and the Fund paying 20%.

### **Part B**

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

For the 2020 and 2019 policy years, there is a \$300,000 per claim limit and a \$17.5 million profession-wide annual aggregate limit. The Society and the Captive have obtained insurance in the amount of \$5 million to cover a portion of the annual aggregate limit. There is no deductible payable by the member. This insurance is subject to a \$3 million group deductible and is co-insured 80/20 with the indemnified paying 80% of losses over \$3 million to a maximum of \$5 million, and the Fund paying 20%.

### **Part C**

Effective January 1, 2012, Part C of the Policy provides defined indemnity coverage for trust shortages suffered by covered lawyers as a result of relying on fraudulent certified cheques. Effective January 1, 2017, Part C was expanded to include coverage for certain other social engineering frauds.

For the 2020 and 2019 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, for relying on fraudulent certified cheques, is contingent upon compliance with the Society's client identification and verification rules.

## **2 Significant accounting policies**

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

### **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.

# The Law Society of British Columbia – Lawyers Indemnity Fund

## Notes to Consolidated Fund Financial Statements

December 31, 2020

---

### **Cash**

Cash comprises cash on hand and held with a Canadian chartered bank.

### **Fair value of financial instruments**

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

The fair values of the provision for claims correspond to their carrying values because they are discounted.

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

### **Short-term investments**

Short-term investments consist of pooled money market funds, whose investments have original maturities of less than 90 days, 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, bond, real estate and mortgage funds and are initially and subsequently measured at fair value. Changes in fair value are recognized in the consolidated fund 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 fund statement of revenue and expenses in the year incurred.

### **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 fund 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 provision for unpaid claims is established according to accepted actuarial practice in Canada. It is carried on a discounted basis and therefore reflects the time value of money. To recognize the uncertainty in establishing best estimates, the Fund includes a provision for adverse deviations (PfAD).

# **The Law Society of British Columbia – Lawyers Indemnity Fund**

## Notes to Consolidated Fund Financial Statements

**December 31, 2020**

---

### **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 consolidated fund financial statements and revenues and expenses for the period reported.

The Society continues to monitor these estimates; however, they have not to date been significantly impacted by the economic uncertainty related to COVID 19.

The determination of the provision for claims and ULAE 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, short-term investments, accounts receivable, members' share of provision for claims, bond pooled funds and the investment in real estate mortgage indirectly expose the Fund to credit risk.

The maximum exposure to credit risk arising from the above-noted items is \$119,144,897 (2019 – \$97,440,093).

Credit risk arises from the possibility that a counterparty to an instrument fails to meet its obligations.

# The Law Society of British Columbia – Lawyers Indemnity Fund

## Notes to Consolidated Fund Financial Statements

December 31, 2020

---

The cash deposits are held only with Schedule I banks. The accounts receivable balances are spread across the broad membership base with no significant exposure to any one individual. The guidelines of the Society's statement of investment policies and procedures (SIPP) mitigate credit risk by ensuring the investments in the bond pooled funds have an adequate minimum credit rating and well-diversified portfolios. These mitigating factors have also protected the Fund against any increased credit risk associated with the COVID-19 pandemic.

### 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 Society's 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, bond, real estate and mortgage fund investments.

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

As at December 31, 2020, if pooled fund prices increased or decreased by 10% with all other factors remaining constant, net assets would have increased or decreased by approximately \$21.3 million (2019 – \$19.1 million).

### Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet all cash outflow requirements. At December 31, 2020, 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 \$108 million, or 99% (2019 – \$95 million, or 91%).

## 3 Accounts receivable

	2020 \$	2019 \$
Member deductibles	743,296	572,740
Allowance for doubtful accounts	(422,256)	(376,238)
GST/HST receivable	118,299	113,523
Income tax receivable	-	5
Other receivables	-	2,341
	<hr/> 439,339	<hr/> 312,371

# The Law Society of British Columbia – Lawyers Indemnity Fund

## Notes to Consolidated Fund Financial Statements

December 31, 2020

### 4 Government remittances

The following government remittances are included in accounts payable:

	2020 \$	2019 \$
Ministry of Finance – premium tax	1,241	9,056

### 5 Short-term investments

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

	2020 \$	2019 \$
Money market funds	515,438	7,546,680

### 6 Investments

	2020 \$	2019 \$
Investments – at fair value	213,187,539	191,282,480

	2020			
	Carrying cost \$	Gross unrealized gains \$	Gross unrealized losses \$	Estimated fair value \$
Bonds				
Pooled Funds	52,308,669	549,970	-	52,858,639
Equities				
Canadian Pooled Funds	22,830,786	10,145,055	-	32,975,841
International Pooled Funds	37,336,707	29,027,437	-	66,364,144
	60,167,493	39,172,492	-	99,339,985
Real Estate & Mortgage				
Real Estate Fund	14,521,175	5,041,804	-	19,562,979
Mortgage Fund	40,983,238	442,698	-	41,425,936
	55,504,413	5,484,502	-	60,988,915
	167,980,575	45,206,964	-	213,187,539



# The Law Society of British Columbia – Lawyers Indemnity Fund

## Notes to Consolidated Fund Financial Statements

December 31, 2020

	2019			
	Carrying cost \$	Gross unrealized gains \$	Gross unrealized losses \$	Estimated fair value \$
Bonds				
Pooled Funds	51,527,919	-	(216,811)	51,311,108
Equities				
Canadian Pooled Funds	25,901,689	15,024,426	-	40,926,115
International Pooled Funds	41,394,505	21,750,850	-	63,145,355
	67,296,194	36,775,276	-	104,071,470
Real Estate & Mortgage				
Real Estate Fund	14,521,175	4,562,792	-	19,083,967
Mortgage Fund	16,988,365	-	(172,430)	16,815,935
	31,509,540	4,562,792	(172,430)	35,899,902
	150,333,653	41,338,068	(389,241)	191,282,480

The effective yield on the Bonds, Mortgages and Equities portion of the investment portfolio was 2.0% (2019 – 2.58%).

### Investment risk management

The Society has adopted policies that 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, equities, as well as real estate and mortgages. The Society invests in bonds, equities, real estate and mortgages through pooled funds.

### Investment income

	2020 \$	2019 \$
Interest on cash	34,340	118,918
Pooled distributions	6,900,929	7,971,978
Net interfund loan interest expense (note 10)	(192,705)	(241,114)
Investment income	6,742,564	7,849,782

# The Law Society of British Columbia – Lawyers Indemnity Fund

## Notes to Consolidated Fund Financial Statements

December 31, 2020

---

### Fair value changes in investments

	2020 \$	2019 \$
Realized gain on disposal of investments	3,931,005	857,660
Unrealized gain on investments measured at fair value	4,215,945	15,803,698
	<hr/>	<hr/>
Fair value increase in investments	8,146,950	16,661,358
	<hr/>	<hr/>

### 7 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 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 2020, principal of \$500,000 (2019 – \$500,000) was repaid.

	2020 %	2019 %
Weighted average rate of return	1.36	2.29
	<hr/>	<hr/>

### 8 Accounts payable and accrued liabilities

	2020 \$	2019 \$
Trade payables	1,664,427	1,865,030
Accrued trade expenses	303,586	267,835
Premium taxes payable	11,084	9,056
Provincial sales taxes payable	1,241	-
Income taxes payable	722	-
	<hr/>	<hr/>
	1,981,060	2,141,921
	<hr/>	<hr/>

# The Law Society of British Columbia – Lawyers Indemnity Fund

## Notes to Consolidated Fund Financial Statements

December 31, 2020

### 9 Provision for claims and unallocated loss adjustment expenses (ULAE)

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

	2020 \$	2019 \$
<b>Part A Indemnity Coverage</b>		
Provision for claims – Beginning of year	75,174,017	73,309,091
Provision for losses and expenses for claims reported in the current year	19,382,000	19,839,622
Decrease in estimated losses and expenses for losses reported in prior years	(8,364,859)	(8,176,687)
Provision for claims liability	86,191,158	84,972,026
(Subtract) add:		
Payments on claims reported in the current year	(832,332)	(1,746,698)
Payments on claims reported in prior years	(10,144,993)	(9,369,245)
Recoveries on claims	61,895	1,314,977
Change in due from members	(64,470)	2,957
Claim payments – net of recoveries	(10,979,900)	(9,798,009)
Part A Provision for claims – End of year	75,211,258	75,174,017
<b>Part B Indemnity Coverage</b>		
Unpaid claims – Beginning of year	319,490	593,694
Provision for losses and expenses for claims	355,034	(34,599)
	674,524	559,095
(Subtract) add:		
Payments on claims	(255,443)	(246,992)
Recoveries on claims	36,088	7,387
Claim payments – net of recoveries	(219,355)	(239,605)
Part B Provision for claims – End of year	455,169	319,490
<b>Part C Indemnity Coverage</b>		
Provision for claims – Beginning of year	1,015,554	437,595
Provision for losses and expenses for claims reported in the current year	(2,805)	1,267,779
	1,012,749	1,705,374
(Subtract) add:		
Payments on claims	(195,766)	(752,378)
Change in due from members	(107,790)	62,558
Part C Provision for claims – End of Year	709,193	1,015,554
<b>Total provision for Parts A, B and C Indemnity Coverage</b>	<b>76,375,620</b>	<b>76,509,061</b>

# The Law Society of British Columbia – Lawyers Indemnity Fund

## Notes to Consolidated Fund Financial Statements

December 31, 2020

---

The determination of the provision for unpaid claims and adjustment expenses requires the estimation of two major variables or quanta, being development of claims and the effect of discounting, to establish a best estimate of the value of the respective liability or asset.

The provision for unpaid claims and adjustment expenses is an estimate subject to variability, and the variability 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 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 operational costs relating to the administration of claims and potential claims reported up to the consolidated fund statement of financial position date.

The Fund discounts its best estimate of claims provisions at a rate of interest of 1.84% (2019 – 2.47%). 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 discounted claims liability of \$2.589 million (2019 – \$2.563million) and a 1% decrease in the discount rate will have an unfavourable impact on the discounted claims liability of \$2.738 million (2019 – \$2.750 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 estimates are adequate to pay future claims liabilities, 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, net of members' share of provision for claims, are as follows (in thousands of dollars):

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Undiscounted	78,996	79,942
Effect of present value	(4,333)	(5,926)
PFAD	12,665	12,910
	<hr/>	<hr/>
Discounted	87,328	86,926
	<hr/>	<hr/>

# The Law Society of British Columbia – Lawyers Indemnity Fund

## Notes to Consolidated Fund Financial Statements

December 31, 2020

### Claims development tables (net of members' share of provision for claims)

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 reconciles the cumulative claims to the amount appearing in the consolidated fund statement of financial position.

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

Claims year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Estimate of undiscounted ultimate claims costs											
At end of claims year	14,560	13,390	15,230	12,690	15,090	16,720	15,720	19,767	18,522	17,877	
One year later	13,550	13,080	15,100	12,390	16,590	15,440	15,791	19,219	17,580		
Two years later	11,570	11,970	17,780	12,240	15,210	15,956	16,005	18,802			
Three years later	10,920	10,690	20,300	11,760	13,153	14,548	14,807				
Four years later	11,100	10,490	20,460	12,256	12,775	13,875					
Five years later	11,810	10,100	18,983	11,862	10,385						
Six years later	12,300	9,571	18,087	11,062							
Seven years later	12,078	8,870	17,283								
Eight years later	11,596	8,765									
Nine years later	11,698										
Current estimate of cumulative claims	11,698	8,765	17,283	11,062	10,385	13,875	14,807	18,802	17,580	17,877	142,134
Cumulative payments to date	(10,082)	(8,231)	(16,221)	(8,661)	(7,712)	(10,052)	(6,480)	(4,918)	(4,466)	(1,051)	(77,874)
Undiscounted unpaid liability	1,616	534	1,062	2,401	2,673	3,823	8,327	13,884	13,114	16,826	64,260
Undiscounted unpaid liability in respect of 2010 and prior years											2,647
Undiscounted unallocated loss adjustment expense reserve											10,881
<b>Total undiscounted unpaid claims liability</b>											<b>77,788</b>
Discounting adjustment (includes Claim PFAD)											8,258
<b>Total discounted unpaid claims liability</b>											<b>86,046</b>

# The Law Society of British Columbia – Lawyers Indemnity Fund

## Notes to Consolidated Fund Financial Statements

December 31, 2020

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

Claims year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Estimate of undiscounted ultimate claims costs											
At end of claims year	28	18	53	562	41	274	1,588	135	152	93	
One year later	24	13	82	500	184	134	1,764	126	51		
Two years later	23	12	100	421	180	62	1,696	178			
Three years later	23	13	115	372	157	65	2,039				
Four years later	23	8	108	205	120	70					
Five years later	25	8	100	185	101						
Six years later	25	20	100	199							
Seven years later	24	14	100								
Eight years later	24	14									
Nine years later	24										
Current estimate of cumulative claims	24	14	100	199	101	70	2,039	178	51	93	2,869
Cumulative payments to date	(23)	(5)	(100)	(190)	(92)	(65)	(1,813)	(134)	(32)	(6)	(2,460)
Undiscounted unpaid liability	1	9	-	9	9	5	226	44	19	87	409
Undiscounted unpaid liability in respect of 2010 and prior years											6
Undiscounted unallocated loss adjustment expense reserve											67
<b>Total undiscounted unpaid claims liability</b>											482
Discounting adjustment (includes Claim PFAD)											46
<b>Total discounted unpaid claims liability</b>											528

# The Law Society of British Columbia – Lawyers Indemnity Fund

## Notes to Consolidated Fund Financial Statements

December 31, 2020

### Part C indemnity claims (in thousands of dollars)

Claims year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Estimate of undiscounted ultimate claims costs											
At end of claims year	-	-	-	-	-	-	-	65	650	91	
One year later	-	-	-	-	-	-	423	65	723		
Two years later	-	-	-	-	-	-	923	65			
Three years later	-	-	-	-	-	-	923				
Four years later	-	-	-	-	-	-					
Five years later	-	-	-	-	-	-					
Six years later	-	-	-	-	-	-					
Seven years later	-	-	-	-	-	-					
Eight years later	-	-	-	-	-	-					
Nine years later	-	-	-	-	-	-					
Current estimate of cumulative claims	-	-	-	-	-	-	923	65	723	91	1,802
Cumulative payments to date	-	-	-	-	-	-	(429)	(65)	(692)	-	(1,186)
Undiscounted unpaid liability	-	-	-	-	-	-	494	-	31	91	616
Undiscounted unpaid liability in respect of 2010 and prior years											-
Undiscounted unallocated loss adjustment expense reserve											109
<b>Total undiscounted unpaid claims liability</b>											725
Discounting adjustment (includes Claim PFAD)											29
<b>Total discounted unpaid claims liability</b>											<u>754</u>

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 2020	20,540	16,023	12,058	8,591	5,931	15,853	78,996
December 31, 2019	19,652	16,587	12,690	8,936	6,371	15,706	79,942

# The Law Society of British Columbia – Lawyers Indemnity Fund

## Notes to Consolidated Fund Financial Statements

December 31, 2020

---

### **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 fund 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 fund 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, expenses and other contingencies, taking into consideration the circumstances of the Fund and the nature of the indemnity policies.

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.

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

### **10 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. 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 which is not expected to be used as the Special Compensation Fund is in the process of being wound up. As of December 31, 2020, no amounts have been drawn on the facilities (2019 – \$nil).

Pursuant to reserve policy, \$0.70 million of the net assets related to trust assurance was transferred during 2020 (2019 – \$1.16 million).

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 2020 was 1.36% (2019 – 2.29%). The Fund's net loan position at December 31, 2020 was \$9.3 million (2019 – \$5.0 million) which includes the General Fund building loan, other operating balances with the General Fund and 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.



# The Law Society of British Columbia – Lawyers Indemnity Fund

## Notes to Consolidated Fund Financial Statements

December 31, 2020

---

During the year ended December 31, 2020, interest revenue of \$10,410 (2019 – \$25,780) was received on the General Fund building loan, interest of \$202,807 (2019 – \$264,139) was paid on General Fund cash balances held by the Fund, and \$308 (2019 – \$2,755) was paid on the Special Compensation Fund cash balances held by the Fund for a net interest expense of \$192,705 (2019 – \$241,114).

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

### **11 Internally restricted net assets**

The Benchers have allocated \$17.5 million (2019 – \$17.5 million) of the net assets to Part B coverage for dishonest appropriation of trust funds or property.

### **12 Regulatory requirements and capital management**

Under regulation of the Insurance (Captive Company) Act of B.C. the Captive was required to maintain a minimum of \$200,000 in shareholder's equity and \$100,000 in reserves; the Captive was in compliance with these regulations throughout the year. During the year, BCFSA was informed of the intention to wind up LSBC Captive Company Ltd. and at the time of wind up on December 31, 2020, the Captive was no longer subject to the regulatory requirements.

### **13 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, 2020, expenses of \$146,602 (2019 – \$54,354) were incurred by the Fund with these law firms.

### **14 Subsequent events**

As of January 1, 2021, BC Lawyers Indemnity Association (BCLIA) was incorporated to issue the indemnity policies to covered lawyers. As a subsidiary of the Society that is exempt from regulation by the BCFSA, BCLIA will assume from the Society the rights and obligations of the Captive under all outstanding professional liability policies, except the Business Innocent Covered Party (BIC) policies. Effective December 31, 2020, all the assets and liabilities of the Captive have been transferred to the Law Society.