



Law Society
of Ontario

Barreau
de l'Ontario

Tab 6

Audit & Finance Committee

Report to Convocation

November 30, 2023

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Table of Contents

For Information:

Law Society of Ontario Financial Statements For the nine months ended September 30, 2023	Tab 6.1
Investment Compliance Reports For the quarter ended September 30, 2023	Tab 6.2

FOR INFORMATION

Law Society of Ontario Financial Statements for the nine months Ended September 30, 2023

The Law Society's financial statements for the first nine months of 2023 are provided to Convocation for information. They were reviewed by the Audit & Finance Committee with no concerns identified to bring to Convocation's attention. These interim statements are part of the quarterly financial reporting schedule. Unlike annual statements, interim statements are not audited.

These financial statements present the financial position and operations of the Law Society and include the General Funds (or operating funds) and the following special purpose or restricted funds:

- The lawyer and paralegal pools of the Compensation Fund are restricted by the Law Society Act and is an externally restricted fund.
- The Errors and Omissions Insurance Fund ("E&O Fund"), the Capital Allocation Fund, the Invested in Capital and Intangible Assets Fund, the County Libraries Fund and the "Other Restricted Funds" (Repayable Allowance Fund, Special Projects Fund and Parental Leave Assistance Fund) are restricted by Convocation and are internally restricted funds.

Information on General Funds and restricted funds is provided in [Appendix A](#). *This information is included for reference and is not mandatory reading.*

The financial statements for the nine months ended September 30, 2023, comprise the following:

- Statement of Financial Position
- Statement of Revenues and Expenses and Change in Fund Balances, detailing results of operations for lawyers and paralegals
- Schedule of Restricted Funds

Supplemental schedules include:

- Statements of Financial Position for the Compensation Fund and E&O Fund
- Schedules of Revenues and Expenses for the Lawyer General Fund, the Paralegal General Fund, the combined General Funds, the Compensation Fund with separate schedules for the lawyer and paralegal pools of the Fund, the E&O Fund, and the Schedule of Capital Expenditures

Executive Summary

The combined financial statements of the Law Society to the end of the third quarter, including change in fair value of investments, report revenues exceeding expenses by \$140,000 and increasing the overall fund balances by that same amount.

This is in comparison to the first nine months of 2022 where expenses exceeded revenues by \$16.3 million. The negative results in 2022 were driven by significant unrealized investment losses, increased claims activity in the Compensation Fund and unplanned expenditures related to the Licensing Process.

Five key factors driving positive financial results to the end of June continued to influence the third quarter of 2023:

- 1) Total unrealized gains on investments of \$2.2 million related to the Law Society's three investment portfolios for the General, Compensation and E&O Funds. While positive to date in 2023, these gains do not fully recover the unrealized losses of \$7.5 million in 2022.
- 2) Investment returns, influenced by higher interest rates, are notably greater than projected when the 2023 budget was prepared.
- 3) The 2023 budget contemplated a full return to in-person activities including all meetings of Convocation and Committees. The continued use of hybrid and virtual modalities to hold meetings, hearings, and functions leads to savings in bench expenses, remuneration, and catering/function costs.
- 4) Unbudgeted savings across the organization as a result of continued virtual and hybrid interactions reducing expenses related to meetings, events, and travel, and less spending on engaging external counsel. Current labour market conditions have created longer lags to fill vacant positions resulting in lower salary expenses in some divisions.

- 5) The Law Society budget includes a \$1 million contingency for in-year unforeseen circumstances. These funds have not been used to date in 2023.

The recently approved 2024 budget incorporated some of these factors, such as improved investment returns with higher interest rates, optimized use of virtual and hybrid modalities with reduced costs for meetings, hearings, travel, etc., and increased digitization decreasing printing and related expenses. As a result, it is reasonable to anticipate that actual expenses in 2024 will more closely mirror budget for these activities.

The key factors have led to:

- Revenues exceeding expenses in the Lawyer General Fund by \$4.7 million at the end of the third quarter, compared to a budget that planned for expenses to exceed revenues of \$6.5 million for the same period. The positive results are driven by higher than budgeted revenues in all streams and lower than budgeted expenses across core functions.
- Revenues exceeding expenses in the Paralegal General Fund at the end of the third quarter by \$305,000 compared to a budget that planned for expenses exceeding revenues by \$469,000 for the same period. Within the Paralegal General Fund, the positive results are driven by expenses trending below budget. However, this is partially offset by revenues that are slightly below budget with lower than anticipated paralegal candidate enrollment in the Licensing Process.
- Revenues exceeding expenses in the lawyer pool of the Compensation Fund by \$2.0 million at the end of the third quarter of 2023, compared to a budget that planned for excess expenses over revenues of \$23,000 for the same period. Unrealized gains on investments of \$878,000 along with the provision for unpaid grants being below budget by \$1.0 million drove the positive results.
- Revenues exceeding expenses in the paralegal pool of the Compensation Fund at the end of the third quarter of \$109,000, compared to a budget that planned excess of expenses over revenues amount of \$40,000. Unrealized investment gains and lower than budgeted provision for unpaid grant expense drove the favourable results.

The balance of this report provides further details and key financial statement highlights.

Financial Statement Highlights

Statement of Revenues and Expenses and Change in Fund Balances

Revenues

The table below gives a high-level view of the revenues recognized to the end of September 2023 as compared to the same period in 2022 and provides context for the more detailed discussion of the results in this section.

Revenues (in 000's)	YTD 2023	YTD 2022	Variance (\$)	Variance (%)
Annual fees	75,491	67,740	7,751	11.4
Insurance premiums and levies	80,216	82,786	(2,570)	(3.1)
Professional development and competence	16,158	14,955	1,203	8.0
Investment income	3,855	1,155	2,700	233.8
Other	4,588	5,041	(453)	(9.0)
Total Revenues	180,308	171,677	8,631	5.0

Annual Fees

Annual fees of \$75.5 million, recognized in the first nine months of 2023, are in line with the 2023 budget and higher than the annual fee revenues in 2022. The 2023 budget incorporated an annual fee increase for lawyers and paralegals of \$168¹ and \$80², respectively, and anticipated an increase in the number of full-fee equivalent paying lawyers (1,150) and paralegals (400). For financial statement presentation purposes, annual fee revenue is recognized monthly.

¹ The \$168 increase may be broken down as a \$89 increase for the lawyer pool of the Compensation Fund, \$62 for the Lawyer General Fund and \$17 for the County Libraries Fund.

² The \$80 comprises an increase of \$71 for the Paralegal General Fund and \$9 for the paralegal pool of the Compensation Fund.

Insurance Premium and Levies

Insurance premiums and levies of \$80.2 million are lower than the prior year at \$82.8 million. LAWPRO's base insurance premium rate for 2023 increased from \$3,000 to \$3,250. The increase in premium revenue with the higher rate is more than offset by a decrease in real estate transactional levies as they move in tandem with residential real estate sales. The interest rate increases of 2023 have slowed down real estate sales resulting in decreased revenue from transaction levies.

LAWPRO is managing a system conversion and the implementation of IFRS17 in 2023. To facilitate quarterly reporting, some financial estimates prepared by LAWPRO management were used related to premium revenues and expenses. The use of estimates is expected to be limited to these financial statements.

Professional Development and Competence ("PD&C")

PD&C revenues comprise income from the licensing process and continuing professional development ("CPD"). Total year-to-date revenues of \$16.2 million are up slightly from the 2023 budget and are favourable when compared to revenues of \$15.0 million for the same period in 2022. Revenues related to candidates in the lawyer licensing process are higher than budget, while the paralegal licensing process experienced lower than anticipated enrolment in its summer examinations, negatively affecting revenues.

The primary driver of the year over year increase in PD&C revenues is attributable to candidate examination fees increasing in 2023, necessitated by the move from online to in-person examinations and the Licensing Process operating on a cost recovery basis.

Investment Income

Investment income for the General, Compensation and E&O Funds for the period was \$3.9 million to the end of the third quarter compared to \$1.2 million for the same period in 2022. The main driver of the change is the increase in interest rates from 0.5% in the first quarter of 2022 to 5.25% in the third quarter of 2023.

The combined budget for investment income in the General and Compensation Funds is \$1.6 million to the end of the third quarter compared to actual returns of \$3.6 million. With planning of the 2023 budget occurring in early summer, it did not contemplate the extent and timing of interest rate increases. The 2024 budget for investment income was adjusted based on updated interest rate projections, with input from the Law Society's investment advisor.

Other Revenues

Other revenues totaling \$4.6 million is higher than the budget of \$4.1 million and down \$452,000 from last year at the same time. The favourable performance is largely due to higher than budgeted ordered cost recoveries in the Compensation Fund (\$54,000) and the General Fund (\$139,000) combined with unbudgeted Certified Specialist revenue (\$207,000).

Expenses

The table below gives a high-level view of the expenses for the nine months ending September 2023 as compared to the same period in 2022 and provides context for the more detailed discussion of the results in this section.

Expenses (in 000's)	YTD 2023	YTD 2022	Variance (\$)	Variance (%)
Professional Regulation, Tribunals & Compliance	24,537	23,742	795	3.3
Professional Development & Competence	23,726	23,065	661	2.9
Corporate Services	22,639	21,144	1,495	7.1
Convocation, Policy & Outreach	5,528	5,380	148	2.8
Services to Licensees & Public	4,499	4,391	108	2.5
Compensation Fund	3,427	6,349	(2,922)	(46.0)
E&O Fund	80,216	82,786	(2,570)	(3.1)
Capital Allocation Fund	8,771	3,039	5,732	188.6
Other Restricted Funds	8,987	8,778	209	2.4
Total Expenses	182,330	178,674	3,656	2.0

Professional Regulation, Tribunals, and Compliance

Professional Regulation, Tribunals, and Compliance expenses totaling \$24.5 million are higher compared to \$23.7 million at the same time last year but are less than budget by \$2.3 million. This is primarily due to lower than budgeted external counsel fee expenses, savings in travel, office, and document reproduction costs through digitization, and use of virtual engagements to drive efficiencies. These savings are expected to continue for the remainder of the year as more documents are managed and stored electronically, and through the continuation of hybrid work arrangements. The 2024 budget incorporated a reduction of \$200,000 in external counsel fees and a combined decrease of \$320,000 in travel, office and document reproduction costs.

Professional Development and Competence

PD&C expenses totaling \$23.7 million are greater than the 2022 amount of \$23.1 million but are less than budget by \$1.4 million. The savings are due to lower travel costs, as a significant number of practice audits and reviews continue to be performed virtually, and a few vacancies, including two positions intentionally left vacant until required for activities related to the development of the Practice Essentials Course.

Corporate Services

Total Corporate Services expenses of \$22.6 million are higher than the 2022 expenses of \$21.1 million and are less than budget by \$624,000. The 2023 budget planned for a return to normalized operations, including more onsite meetings and stakeholder events. With virtual and hybrid activities continuing, spending related to building maintenance and operations is lower in areas such as security services, utilities, repairs and alterations, and furniture and equipment.

There may be some pressure on Corporate Services expenses to the end of the year as some regular building maintenance repairs are completed in the fourth quarter and additional costs related to maintaining legacy systems and the first release of the Law Society's Business and Technology Transformation Project ("The Transformation") began in the third quarter.

Convocation, Policy, and Outreach

Total Convocation, Policy, and Outreach expenses of \$5.5 million are in line with the 2022 expenses of \$5.4 million but are less than budget by \$3.1 million.

The 2023 budget assumed a full return to in-person meetings of Convocation and related Committees. To date, meetings of Convocation and Committees have continued in hybrid or virtual formats resulting in savings in benchers expenses and remuneration, and governance functions of \$800,000 in the first three quarters of 2023. The 2024 budget assumes a continuation of these hybrid meetings with savings of \$219,000 incorporated into the budget.

In addition, the year-to-date budgeted contingency totaling \$750,000 (\$1 million budgeted for the year) has not been used in 2023.

The remainder of the variance from budget results from reduced expenses in stakeholder engagement, advisory groups, media relations, and communications in addition to some delays in filling vacant positions.

Services to Licensees and Public

Services to licensees and public expenses of \$4.5 million are in line with the 2022 expenses of \$4.4 million and are less than budget by \$342,000. The main reasons for spending less than budget are lower costs than budgeted associated with the Membership Assistance Program and the continuation of hybrid conferences and meetings by the Federation of Ontario Law Associations.³

Change in Fair Value of Investments

The Law Society's three investment portfolios for the General, Compensation and E&O Funds have experienced unrealized gains on investments of \$791,000, \$924,000, and \$447,000, respectively, totaling \$2.2 million as of the end of September. This is compared to unrealized losses of \$9.3 million for the same period in 2022. While the change in fair value of investments is not budgeted, these unrealized gains positively impacted the fund balances of the three Funds to date in 2023.

Restricted Funds

The Law Society's Restricted Funds report an excess of expenses over revenues of \$4.8 million to September 30, 2023, compared to expenses exceeding revenues by \$14.3 million to September 2022. The three key components are:

- 1) In the Compensation Fund, revenues exceeded expenses by \$2.1 million (2022 – expenses exceeded revenues by \$9.5 million), explained further on in this report.
- 2) In the E&O Fund, revenues exceeded expenses by \$743,000 (2022 – expenses exceeding revenues by \$2.2 million⁴) due primarily to unrealized gains on long-term investments and increased investment income in 2023.
- 3) In the Capital Allocation Fund, expenses exceeded revenues by \$6.1 million (2022 – \$410,000) due primarily to spending on the Transformation with funding secured in 2022 and 2023 through Convocation approved interfund transfers from the E&O Fund and the Lawyer General Fund.

³ The Law Society, through its budget, provides funding to the Federation of Ontario Law Associations based on actual expenses incurred. If their spending is less than requested at the time of budget planning, savings are realized.

⁴ This excludes interfund transfers.

The **lawyer pool of the Compensation Fund** had excess revenues over expenses of \$2.0 million to the end of September compared to a budget that planned for revenues to be in line with expenses for the same period. The favourable results are attributable to unrealized gains on investments of \$878,000 and a lower than budgeted provision for unpaid grants expense with less inquiries and claims than projected to September 30. The provision for unpaid grant expense as of September 30 was \$2.9 million, which is \$969,000 lower than the budget of \$3.8 million, and is lower than the \$5.8 million for the same period last year. The claims activity experienced in 2022 related primarily to two lawyers with the Law Society receiving a notable number of claims. While this activity continued into 2023, the number of new inquiries and claims declined in the first 9 months.

The **paralegal pool of the Compensation Fund** had an excess of revenues over expenses of \$109,000 to the end of September compared to a budget that planned an excess of expenses over revenues of \$40,000. Unbudgeted unrealized gains on the investment portfolio totaling \$46,000 combined with lower than budgeted inquiry and claim volumes led to the positive results.

The **Capital Allocation Fund** had excess expenses over revenues of \$6.1 million to September 30, 2023. The spending in excess of revenues in 2023 is anticipated as \$9.1 million of funding for the Transformation was transferred to and recognized in the Capital Allocation Fund in 2022. In addition, a further \$3.5 million was approved by Convocation as a transfer in 2023 from the Lawyer General Fund to the Capital Allocation Fund to fund the Transformation.

Not related to the Transformation, the 2023 budget plans for the use of \$1.3 million of available fund balance to support other capital projects such as the repairs and restoration of the Bencher Wing. Expenses to the end of September for the Transformation, Bencher Wing repairs and other approved capital projects were \$8.8 million.

Fund Balances

The table below gives a high-level view of the fund balances as at the end of September 2023 as compared to the balances at the end of September 2022, and provides context for the more detailed discussion of the results in this section.

Fund Balances as at September 30 (in 000's)	Current Year	Prior Year	Variance (\$)	Variance (%)
General Fund – Lawyers	38,937	36,885	2,052	5.6
General Fund – Paralegals	2,467	2,105	362	17.2
Compensation Fund – Lawyers	23,746	21,828	1,918	8.8
Compensation Fund – Paralegals	855	677	178	26.3
E&O Fund	45,528	46,202	(674)	(1.5)
Capital Allocation Fund	12,640	15,313	(2,673)	(17.5)
Other Restricted Funds	10,386	9,073	1,313	14.5
Total Fund Balances	134,559	132,083	2,476	1.9

General Funds

Lawyer General Fund

The fund balance of the Lawyer General Fund is \$38.9 million as of September 30, 2023, which is an increase from \$36.9 million at the same time last year and from the 2022 fiscal year end balance of \$37.7 million. The increase in the fund balance relates to excess revenues over expenses of \$4.7 million offset by an interfund transfer of \$3.5 million to the Capital Allocation Fund. The transfer is earmarked for the Transformation, as approved by Convocation and planned for in conjunction with the 2023 budget.

The Law Society's Fund Balance Management Policy ("Policy") is to maintain a Lawyer General Fund balance within a minimum and maximum benchmark of two to three months of budgeted General Fund expenses. For 2023, the range is \$18.0 million to \$26.9 million. The Lawyer General Fund balance is forecast to end the year at approximately \$37.5 million.

As the lawyer General Fund balance is projected to be above the benchmark, the 2024 budget plans for the following uses of the Lawyer General Fund:

- \$6 million to fund operations in 2024,

- \$3.5 million interfund transfer to the Capital Allocation Fund to fund the Transformation, and
- a loan of up to \$5.675 million to the Capital Allocation Fund restricted to fund spending on the Transformation.

The planned use of the Lawyer General Fund balance in 2024 will bring the projected balance within the Policy benchmarks.

Paralegal General Fund

The Paralegal General Fund balance is \$2.5 million as of September 30, 2023 which is an increase from the \$2.1 million at the same time last year and from the \$2.2 million balance at the end of 2022.

The Paralegal General Fund is expected to end the year at \$2.4 million. There is no formal Policy for the Paralegal General Fund. The 2024 budget for the Paralegal General Fund incorporates the use of \$600,000 in available fund balance towards funding operations.

Lawyer Pool of the Compensation Fund

The balance of the lawyer pool of the Compensation Fund at the end of September 2023 is \$23.7 million compared to the fund balance of \$21.8 million at the same time last year. While this is above the current Policy's minimum benchmark of \$20.4 million, unrealized investment losses or notable claims activity could bring the fund balance below the minimum benchmark.

Paralegal Pool of the Compensation Fund

The balance of the paralegal pool of the Compensation Fund at the end of September 2023 is \$855,000 compared to a fund balance of \$677,000 at the same time last year. Convocation approved a Policy for the paralegal pool of the Compensation Fund in September of this year, with minimum and maximum benchmarks of \$143,000 and \$707,000, respectively. As the current and projected balance of the paralegal pool of the Compensation Fund exceeds the maximum benchmark, the Compensation Fund component of the paralegal annual fee is \$1 in the 2024 budget.

Errors & Omissions Insurance Fund

The E&O Fund balance at the end of September 2023 was \$45.5 million which is an increase from a balance of \$44.8 million as of December 31, 2022. The Law Society's investment in LAWPRO of \$35.6 million is a component of the fund balance. The 2023 budget plans for an interfund transfer of \$1.2 million from the E&O Fund to the Lawyer General Fund from surplus investment income. This transfer usually occurs in the latter part of the year.

Capital Allocation Fund

As at September 30, 2023, the Capital Allocation Fund had a fund balance of \$12.6 million of which \$4.4 million is restricted to fund the Transformation.

Statement of Financial Position

Cash & Short-Term Investments

The total of cash and short-term investments at the end of the third quarter is \$79.5 million (2022 - \$73.7 million). Of this amount, \$16.7 million (2022 - \$12.1 million) pertains to the Compensation Fund and is held in separate bank and short-term investment accounts. The cash balance will continue to decrease for the remainder of 2023 as the collection of annual fees is highest in the first quarter while disbursements occur throughout the year. The Law Society has sufficient working capital on hand to discharge its short and medium-term obligations.

Accounts Receivable

Accounts receivable at the end of the third quarter are \$35.7 million, an increase from the prior year's balance of \$30.7 million. The increase in the accounts receivable is consistent with the increase in the annual fees and insurance premiums in 2023.

Loan Receivable

In 2018, the Law Society contributed to a subordinated syndicated loan with all other Canadian law societies to fund CanLII's purchase of all the shares of Lexum Informatique Juridique Inc. ("Lexum"). Lexum is a software company that operates online legal information delivery products primarily for CanLII. The total amount of the loan is \$1.7 million and it matured on February 23, 2023. The loan was repaid in full on May 18, 2023. Interest continued to be earned on the loan until the repayment date.

Portfolio Investments

Portfolio investments are shown at a fair value of \$81.4 million (2022 - \$76.1 million) with the first three quarters of 2023 experiencing unrealized gains of \$2.2 million. Of the total portfolio investments at the end of September, \$20.3 million pertains to the General Funds, \$38.5 million pertains to the Compensation Fund, and \$22.6 million pertains to the E&O Fund.

Deferred Revenue

Deferred revenue of \$58.0 million (2022 - \$49.8 million) comprises annual fees, licensing process revenues, and insurance premiums, which are recognized monthly throughout the year. The increase in deferred revenue year over year is consistent with the increase in the underlying fees in 2023.

Provision for Unpaid Grants Liability

The provision for unpaid grants liability represents the estimate for unpaid grants and inquiries against both the lawyer and paralegal pools of the Compensation Fund, supplemented by the costs for processing these grants. The current balance of \$29.3 million increased from \$25.5 million in 2022 as the Fund continued to receive inquiries and claims against three lawyer licensees during the remainder of 2022. In addition, with increased claims in 2022 overall, the year-end valuation resulted in an increase of \$1.7 million on the provision for unpaid grants liability. The total Compensation Fund provision for unpaid grants includes \$366,000 relating to paralegal unpaid grants and inquires.

Statement of Financial Position

Unaudited

Stated in thousands of dollars

As at September 30

	2023	2022
Assets		
Current Assets		
Cash	62,867	57,796
Short-term investments	16,652	15,937
Accounts receivable	35,664	30,724
Prepaid expenses	34,685	30,264
Total current assets	149,868	134,721
Investment in subsidiaries	35,642	35,642
Portfolio investments	81,417	76,081
Loan receivable	-	1,701
Capital assets	6,709	5,695
Intangible assets	2,209	1,756
Total Assets	275,845	255,596
Liabilities and Fund Balances		
Current Liabilities		
Accounts payable and accrued liabilities	11,768	11,382
Deferred revenue	58,022	49,784
Due to LAWPRO	33,202	28,243
Total current liabilities	102,992	89,409
Provision for unpaid grants/claims	29,306	25,522
Unclaimed trust funds	8,262	7,796
Lease obligations	726	786
Total Liabilities	141,286	123,513
Fund Balances		
General funds		
Lawyers	38,937	36,885
Paralegals	2,467	2,105
Restricted funds		
Compensation - lawyers	23,746	21,828
Compensation - paralegals	855	677
Errors and omissions insurance	45,528	46,202
Capital allocation	12,640	15,313
Invested in capital and intangible assets	8,918	7,450
County libraries	180	298
Other	1,288	1,325
Total Fund Balances	134,559	132,083
Total Liabilities and Fund Balances	275,845	255,596

Statement of Revenues and Expenses and Change in Fund Balances
Unaudited
Stated in thousands of dollars
For the nine months ended September 30

	2023	2022	2023	2022	2023	2022	2023	2022
	General Fund Lawyer		General Fund Paralegal		Restricted Funds		Total	
Revenues								
Annual fees	57,253	53,995	4,951	4,474	13,287	9,271	75,491	67,740
Insurance premiums and levies	-	-	-	-	80,216	82,786	80,216	82,786
Professional development and competence	14,289	12,959	1,869	1,996	-	-	16,158	14,955
Investment income	2,272	528	216	49	1,367	578	3,855	1,155
Other	3,813	3,949	459	550	316	542	4,588	5,041
Total revenues	77,627	71,431	7,495	7,069	95,186	93,177	180,308	171,677
Expenses								
Professional regulation, tribunals and compliance	23,171	22,423	1,366	1,319	-	-	24,537	23,742
Professional development and competence	21,121	20,213	2,605	2,852	-	-	23,726	23,065
Corporate services	20,112	18,814	2,527	2,330	-	-	22,639	21,144
Convocation, policy and outreach	5,005	4,866	523	514	-	-	5,528	5,380
Services to licensees and public	4,181	4,069	318	322	-	-	4,499	4,391
Restricted	-	-	-	-	101,401	100,952	101,401	100,952
Total expenses	73,590	70,385	7,339	7,337	101,401	100,952	182,330	178,674
Excess of revenues over expenses (expenses over revenues) from operations	4,037	1,046	156	(268)	(6,215)	(7,775)	(2,022)	(6,997)
Change in fair value of investments	642	(2,386)	149	(302)	1,371	(6,574)	2,162	(9,262)
Excess of revenues over expenses (expenses over revenues)	4,679	(1,340)	305	(570)	(4,844)	(14,349)	140	(16,259)
Fund balances, beginning of year	37,746	38,333	2,162	2,685	94,511	107,324	134,419	148,342
Interfund transfers	(3,488)	(108)	-	(10)	3,488	118	-	-
Fund balances, end of period	38,937	36,885	2,467	2,105	93,155	93,093	134,559	132,083

Schedule of Restricted Funds

Unaudited

Stated in thousands of dollars

For the nine months ended September 30

	2023						2022		
	Compensation Fund Lawyer	Paralegal	Errors and omissions insurance	Capital allocation	Invested in capital and intangible assets	County libraries	Other restricted	Total	Total
Fund balances, beginning of year	21,705	746	44,785	15,191	10,614	177	1,293	94,511	107,324
Revenues									
Annual fees	3,214	52	-	2,720	-	7,201	100	13,287	9,271
Insurance premiums and levies	-	-	80,216	-	-	-	-	80,216	82,786
Investment income	1,017	54	296	-	-	-	-	1,367	578
Other	316	-	-	-	-	-	-	316	542
Total revenues	4,547	106	80,512	2,720	-	7,201	100	95,186	93,177
Total expenses	3,384	43	80,216	8,771	1,696	7,198	93	101,401	100,952
Excess of revenues over expenses (expenses over revenues) from operations	1,163	63	296	(6,051)	(1,696)	3	7	(6,215)	(7,775)
Change in fair value of investments	878	46	447	-	-	-	-	1,371	(6,574)
Excess of revenues over expenses (expenses over revenues)	2,041	109	743	(6,051)	(1,696)	3	7	(4,844)	(14,349)
Interfund transfers	-	-	-	3,500	-	-	(12)	3,488	118
Fund balances, end of period	23,746	855	45,528	12,640	8,918	180	1,288	93,155	93,093

Lawyers and Paralegals General Fund Schedule of Revenues and Expenses

Unaudited

Stated in thousands of dollars

For the nine months ended September 30

	2023 Actual	2023 Budget YTD	Variance	2022 Actual
Revenues				
Annual fees	62,204	61,706	498	58,469
Professional development and competence	16,158	15,623	535	14,955
Investment income	2,488	665	1,823	577
Other	4,272	3,844	428	4,499
Total revenues	85,122	81,838	3,284	78,500
Expenses				
Professional regulation, tribunals and compliance	24,537	26,880	2,343	23,742
Professional development and competence	23,726	25,170	1,444	23,065
Corporate services	22,639	23,263	624	21,144
Convocation, policy and outreach	5,528	8,617	3,089	5,380
Services to licensees and public	4,499	4,841	342	4,391
Total expenses	80,929	88,771	7,842	77,722
Excess of revenues over expenses (expenses over revenues) from operations	4,193	(6,933)	11,126	778
Change in fair value of investments	791	-	791	(2,688)
Excess of revenues over expenses (expenses over revenues)	4,984	(6,933)	11,917	(1,910)

General Fund - Lawyers Schedule of Revenues and Expenses

Unaudited

Stated in thousands of dollars

For the nine months ended September 30

	2023 Actual	2023 Budget YTD	Variance	2022 Actual
Revenues				
Annual fees	57,253	56,800	453	53,995
Professional development and competence	14,289	13,352	937	12,959
Investment income	2,272	590	1,682	528
Other	3,813	3,415	398	3,949
Total revenues	77,627	74,157	3,470	71,431
Expenses				
Professional regulation, tribunals and compliance	23,171	25,394	2,223	22,423
Professional development and competence	21,121	22,297	1,176	20,213
Corporate services	20,112	20,640	528	18,814
Convocation, policy and outreach	5,005	7,791	2,786	4,866
Services to licensees and public	4,181	4,499	318	4,069
Total expenses	73,590	80,621	7,031	70,385
Excess of revenues over expenses (expenses over revenues) from operations	4,037	(6,464)	10,501	1,046
Change in fair value of investments	642	-	642	(2,386)
Excess of revenues over expenses (expenses over revenues)	4,679	(6,464)	11,143	(1,340)

General Fund - Paralegals Schedule of Revenues and Expenses

Unaudited

Stated in thousands of dollars

For the nine months ended September 30

	2023 Actual	2023 Budget YTD	Variance	2022 Actual
Revenues				
Annual fees	4,951	4,906	45	4,474
Professional development and competence	1,869	2,271	(402)	1,996
Investment income	216	75	141	49
Other	459	429	30	550
Total revenues	7,495	7,681	(186)	7,069
Expenses				
Professional regulation, tribunals and compliance	1,366	1,486	120	1,319
Professional development and competence	2,605	2,873	268	2,852
Corporate services	2,527	2,623	96	2,330
Convocation, policy and outreach	523	826	303	514
Services to licensees and public	318	342	24	322
Total expenses	7,339	8,150	811	7,337
Excess of revenues over expenses (expenses over revenues) from operations	156	(469)	625	(268)
Change in fair value of investments	149	-	149	(302)
Excess of revenues over expenses (expenses over revenues)	305	(469)	774	(570)

Compensation Fund

Statement of Financial Position

Unaudited

Stated in thousands of dollars

As at September 30

Assets	2023	2022
Current Assets		
Cash	16,676	12,149
Total Current Assets	16,676	12,149
Portfolio investments	38,502	36,091
Total Assets	55,178	48,240
Liabilities and Fund Balance		
Current Liabilities		
Accounts payable and accrued liabilities	135	136
Deferred revenue	1,088	23
Due to General Fund	49	55
Total Current Liabilities	1,272	214
Provision for unpaid grants/claims - lawyers	28,939	25,145
Provision for unpaid grants/claims - paralegals	366	376
Total Liabilities	30,577	25,735
Fund balance - lawyers	23,746	21,828
Fund balance - paralegals	855	677
Total Fund Balance	24,601	22,505
Total Liabilities and Fund Balance	55,178	48,240

Lawyers and Paralegals Compensation Fund

Schedule of Revenues and Expenses

Unaudited

Stated in thousands of dollars

For the nine months ended September 30

	2023 Actual	2023 Budget YTD	Variance	2022 Actual
Revenues				
Annual fees	3,266	3,271	(5)	68
Investment income	1,071	958	113	456
Recoveries	316	262	54	542
Total revenues	4,653	4,491	162	1,066
Expenses				
Provision for unpaid grants	2,871	3,949	1,078	5,860
Administrative	556	605	49	489
Total expenses	3,427	4,554	1,127	6,349
Excess of revenues over expenses (expenses over revenues) from operations	1,226	(63)	1,289	(5,283)
Change in fair value of investments	924	-	924	(4,231)
Excess of revenues over expenses (expenses over revenues)	2,150	(63)	2,213	(9,514)

Compensation Fund - Lawyers

Schedule of Revenues and Expenses

Unaudited

Stated in thousands of dollars

For the nine months ended September 30

	2023 Actual	2023 Budget YTD	Variance	2022 Actual
Revenues				
Annual fees	3,214	3,218	(4)	63
Investment income	1,017	910	107	433
Recoveries	316	249	67	542
Total revenues	4,547	4,377	170	1,038
Expenses				
Provision for unpaid grants	2,856	3,825	969	5,830
Administrative	528	575	47	465
Total expenses	3,384	4,400	1,016	6,295
Excess of revenues over expenses (expenses over revenues) from operations	1,163	(23)	1,186	(5,257)
Change in fair value of investments	878	-	878	(3,970)
Excess of revenues over expenses (expenses over revenues)	2,041	(23)	2,064	(9,227)

Compensation Fund - Paralegals

Schedule of Revenues and Expenses

Unaudited

Stated in thousands of dollars

For the nine months ended September 30

	2023 Actual	2023 Budget YTD	Variance	2022 Actual
Revenues				
Annual fees	52	53	(1)	5
Investment income	54	48	6	23
Recoveries	-	13	(13)	-
Total revenues	106	114	(8)	28
Expenses				
Provision for unpaid grants	15	124	109	30
Administrative	28	30	2	24
Total expenses	43	154	111	54
Excess of revenues over expenses (expenses over revenues) from operations	63	(40)	103	(26)
Change in fair value of investments	46	-	46	(261)
Excess of revenues over expenses (expenses over revenues)	109	(40)	149	(287)



Errors & Omissions Insurance Fund

Statement of Financial Position

Unaudited

Stated in thousands of dollars

As at September 30

Assets	2023	2022
Current Assets		
Cash	1,148	123
Accounts receivable	22,071	19,388
Prepaid E&O premiums incurred	32,617	28,989
Total Current Assets	55,836	48,500
Investment in subsidiary	35,642	35,642
Portfolio investments	22,613	21,333
Total Assets	114,091	105,475
Liabilities and Fund Balance		
Current Liabilities		
Due to LawPRO	33,284	28,269
Unearned E&O premiums recovered	24,979	22,240
Due to General Fund	1,200	164
Due to Capital Fund	9,100	8,600
Total Current Liabilities	68,563	59,273
Fund Balance	45,528	46,202
Total Liabilities and Fund Balance	114,091	105,475

Errors and Omissions Insurance Fund

Schedule of Revenues and Expenses and Change in Fund Balance

Unaudited

Stated in thousands of dollars

For the nine months ended September 30

	2023 Actual	2022 Actual
REVENUES		
Insurance premiums and levies	80,216	82,786
Investment income	296	122
Total revenues	80,512	82,908
EXPENSES		
Insurance	80,216	82,786
Total expenses	80,216	82,786
Excess of revenues over expenses (expenses over revenues)	296	122
Change in fair value of investments	447	(2,343)
Interfund transfers	-	(9,154)
Change in fund balance	743	(11,375)
Fund balance, beginning of period	44,785	57,577
Fund balance, end of period	45,528	46,202

Capital Summary

Active Capital Projects

Unaudited

Stated in thousands of dollars

For the nine months ended September 30

	2022 Actual	2023 Actual	Total Project Actual	Total Project Budget	Remaining Budget
Capital Expenditures					
Business Technology and Transformation Initiative	888	7,328	8,216	22,300	14,084
Benchers Wing - Phase 1	507	765	1,272	2,800	1,528
Historic Fence Maintenance and Conservation	48	258	306	1,330	1,024
Other Active Capital Projects (less than \$500,000 each)	1,160	420	1,580	1,710	130
Total Capital Expenditures	2,603	8,771	11,374	28,140	16,766

Appendix A

Law Society of Ontario General Funds & Restricted Funds

The Law Society uses separate funds to segregate and account for resources intended for specific activities and programs. Some funds are for general use whereas others are restricted, either by legislation like the Compensation Fund, or by Convocation. Transfers between funds must be approved by Convocation, subject to any applicable policy or restrictions.

General Funds

The Lawyer General Fund and Paralegal General Fund (General Funds) account for the Law Society's program delivery and operations related to the regulation and licensing of lawyers and paralegals. These funds are not restricted for any specific purpose.

Funding for the General Funds comes from, licensee annual fees, licensing process candidate fees, investment income, royalties and other ancillary revenues.

The Law Society's policy is to maintain the Lawyer General Fund balance at no less than two and no more than three months of General Fund budgeted expenses. Based on the 2023 budget, the lower and upper benchmarks are \$18.0 million and \$26.9 million. There is no corresponding policy for the Paralegal General Fund

- If the Lawyer General Fund balance is more than two months of budgeted General Fund expenses, Convocation may approve use of the funds to Mitigate the Lawyer General Fund fee for the next fiscal year;
- Transfer the excess to another Law Society fund if that fund balance is below its stated policy benchmark.

If the Lawyer General Fund balance is less than two months of budgeted General Fund expenses, Convocation must budget for an annual surplus to restore the fund balance to its minimum policy objective within three fiscal periods.

Restricted Funds

Compensation Fund

The Law Society maintains the Compensation Fund to relieve or mitigate loss sustained by any person in consequence of dishonesty on the part of a licensee, in connection with the licensee's professional business or in connection with any trust of which the licensee was a trustee. The Compensation Fund is restricted under section 51 of the Law Society Act.

The Compensation Fund is funded by licensee annual fees, investment income and recoveries from licensees for whom compensation grants were previously paid. The fund is separated into two separate "pools" — one for lawyer licensees and one for paralegal licensees — as the licensee fees that fund these pools is calculated separately for lawyers and paralegals.

The Compensation Fund may only be used to fund the payment of grants and administrative costs related to the processing of claims and no transfers are permitted to any other Law Society fund.

The policy that sets parameters for the lawyer pool of the Compensation Fund establishes minimum¹ and maximum² balance using an actuarial statistical analysis of historical claims and must be reviewed at least every three years.

Based on the most recent review, the lower and upper benchmarks for the lawyer pool of the Compensation Fund approved by Convocation are \$19.6 million to \$96.3 million.

If the lawyer pool of the Compensation Fund balance exceeds the minimum required balance Convocation may:

- Mitigate the Lawyer Compensation Fund levy for the next fiscal year;
- Budget for a surplus sufficient to increase the fund balance to its maximum policy objective of four one-in-one-hundred-year events;
- Leave the fund balance at its current balance for the upcoming fiscal year.

If the balance of the Fund exceeds the maximum balance, Convocation must mitigate the lawyer Compensation Fund until the balance falls below the maximum threshold amount. If the lawyer pool of the Compensation Fund balance is less than the

¹ 97.5th percentile aggregate claim scenarios (one-in-forty-year event)

² Four (4) 99th percentile aggregate claim scenarios (one-in-one-hundred-year event)

minimum required balance, Convocation must budget to restore the fund balance to the minimum level within three fiscal periods.

Errors and Omissions Insurance Fund

The Errors and Omissions Insurance Fund (“E&O Fund”) accounts for insurance-related transactions between LAWPRO, the Law Society and insured lawyers. The E&O Fund collects premiums and levies from lawyers, reported as revenues, and remits these amounts to LAWPRO, reported as expenses.

Pursuant to section 61 of the Law Society Act, the Law Society arranges mandatory professional liability insurance for practising lawyers with LAWPRO, and through the E&O Fund, levies the insured lawyers. Each year, the premium for the insurance program is established through a process whereby LAWPRO provides an offer for review and acceptance by Convocation. The offer provides details on the components of the insurance program, including anticipated base premiums, claims history levies, transaction-based levies and amounts to be drawn from the E&O Fund balance.

The E&O Fund is administered by LAWPRO on behalf of the Law Society under the terms of a management services agreement. Under this arrangement, LAWPRO bills, on behalf of the Law Society³ through the E&O Fund and collects Law Society insurance levies from lawyers and pays the annual insurance premium charged to the Law Society from the E&O Fund to LAWPRO.

Capital Allocation Fund

The Capital Allocation Fund is maintained to provide a source of funds for the acquisition and maintenance of the Law Society’s capital and intangible assets which comprise buildings and major equipment including computers and software. Amounts of assets capitalized, according to the Law Society’s capital asset policy, are transferred to the Invested in Capital and Intangible Assets Fund. Expenditures not capitalized are expended in the Capital Allocation Fund.

The Capital Allocation Fund is funded by the annual fee paid by all licensees, or by transfers from the General Funds, as approved by Convocation. This fund contains a restricted portion, designated solely for the Business Transformation and Technology Initiative.

³ The invoices are issued in the name of the Law Society of Ontario

Invested in Capital and Intangible Assets Fund

The Invested in Capital and Intangible Assets Fund records transactions related to the Law Society's capital assets and intangible assets, specifically acquisitions, amortization and disposals.

County Libraries Fund

The County Libraries Fund records transactions related to the Law Society's support of county law libraries. As approved by Convocation, the fund accumulates funds for county library purposes, which are remitted to LiRN for its operations and for distribution of grants to individual county law libraries.

The County Libraries Fund is funded by annual fees paid by lawyer licensees.

Other Restricted Funds

The Repayable Allowance Fund provides loans to lawyer licensee candidates in financial need to licensing process fees and living expenses. It is funded by Licensing and Accreditation revenues.

The Special Projects Fund is maintained to reserve financing for ongoing special projects approved by Convocation. It is funded through approved transfers from the General Funds. Where the funding for a Convocation approved project is not fully used in the year secured, the amounts are preserved in this fund for the specified project.

The Parental Leave Assistance Fund accounts for the delivery of the Parental Leave Assistance Program ("PLAP") and is funded by lawyers' fees. PLAP provides financial assistance to lawyers in firms of five lawyers or fewer who have a net annual practice income of less than \$50,000 and who do not have access to any other parental leave financial benefits. Under PLAP, the Law Society provides a fixed sum of \$750 a week to eligible applicants for up to 12 weeks to cover expenses associated with maintaining their practice during a maternity, parental or adoption leave.

The Repayable Allowance and the PLAP Funds support initiatives that are specific to lawyers and as such, are funded strictly by lawyer licensee candidate fees and annual fees. The Paralegal Standing Committee considered the impact on paralegal annual fees of offering these two programs to paralegals and decided to not expand the scope to include eligibility for paralegals.

FOR INFORMATION

Investment Compliance Reports

for the Quarter Ended September 30, 2023

Under section 5 of the Law Society Investment Policy (“Policy”), Law Society Management shall report quarterly to the Audit & Finance Committee on compliance with the Policy.

The Committee receives for information the quarterly report on compliance with the Policy and it is presented to Convocation for information.

The Law Society and its investment manager have complied with the investment objectives of the Policy for the quarter ending September 30, 2023, as set out in the following reports:

- **Investment Compliance Report – Short Term Investments – Q3**
- **CCL Investment Compliance Report – Q3**

**Statement of Investment Compliance Short-Term Investments
For the Quarter Ended September 30, 2023**

Short-Term Investment Parameters	Guidelines	Compliance
Allowable Investments		
Treasury bills issued by the Government of Canada, Provincial governments, and their agencies	Allowed	Yes
Bankers acceptances	Allowed	Yes
Commercial paper issued by Canadian corporations with a rating of "R1 low" or better as established by The Dominion Bond Rating service or equivalent rating	Allowed	Yes
Pooled Money Market Fund	Allowed	Yes
Concentration Tests		
Securities of any one single issuer	Maximum 10% of each	Yes
Maximum term to maturity	1 year	Yes



Christianne Abou-Saab
Director, Finance

September 30, 2023

All percentages set out below are based on market values except if noted otherwise.

Law Society of Ontario

Concentration Tests	Guidelines	Actual	Compliance	
Cash				
Cash as a % of the CC&L Short Term Bond Fund (excluding any cash designated to collateralize derivatives exposure)		25.0 %	0.2 %	Yes
Fixed Income				
Single corporate issuer (excluding Schedule 1 Banks) as a % of the CC&L Group Money Market Fund		10.0 %	5.0 %	Yes
Government of Canada and guaranteed bonds as a % of the CC&L Short Term Bond Fund		100.0 %	65.4 %	Yes
Provincial securities as a % of the CC&L Short Term Bond Fund		80.0 %	0.5 %	Yes
Municipal securities as a % of the CC&L Short Term Bond Fund		10.0 %	0.0 %	Yes
Non-government securities as a % of the CC&L Short Term Bond Fund		70.0 %	34.0 %	Yes
Mortgage-backed securities as a % of the CC&L Short Term Bond Fund		25.0 % max	0.0 %	Yes
Asset-backed securities as a % of the CC&L Short Term Bond Fund		25.0 % max	0.0 %	Yes
Corporate bonds as a % of the CC&L Short Term Bond Fund		65.0 % max	34.0 %	Yes
Corporate bonds with a BBB credit rating as a % of the CC&L Short Term Bond Fund		20.0 % max	13.4 %	Yes
Single corporate issuer (excluding Schedule 1 Banks) as a % of the CC&L Short Term Bond		10.0 % max	2.0 %	Yes
Duration of the CC&L Short Term Bond Fund	1.0 yrs to	5.0 yrs	2.7 yrs	Yes
Equities				
Securities of a single issuer for the global equity portfolio will not exceed the greater of 10% of the market value of the total global equity portfolio or that equity's weight in the MSCI World Index				Yes
Securities of a single issuer for the Canadian equity portfolio will not exceed the greater of 10% of the market value of the total Canadian equity portfolio or that equity's weight in the S&P/TSX Capped Composite Index				Yes
Total Portfolio				
Leverage is prohibited				Yes
Exclusion Tests			Compliance	
Cash				
Maximum effective term to maturity of Floating Rate Notes cannot exceed 3 months				Yes
Maximum term to maturity of short term securities (excl FRNS) cannot exceed 1 year				Yes
Cash securities must have a minimum R1-Low credit rating at time of purchase				Yes
Fixed Income				
Minimum BBB- credit rating allowed				Yes
Minimum P2 preferred share rating allowed				Yes

All percentages set out below are based on market values except if noted otherwise.

Law Society of Ontario (General Fund)

Concentration Tests	Min	Target	Max	Actual	Compliance
Asset Mix					
Fixed income as a % of the total portfolio	40.0 %	50.0%	60.0 %	50.4 %	Yes
Total Equities as a % of the total portfolio	40.0 %	50.0%	60.0 %	49.6 %	Yes
NS Partners Global Equity Fund as a % of the total portfolio	23.0 %	33.0%	43.0 %	32.7 %	Yes
CC&L Canadian Equity Fund as a % of the total portfolio	7.0 %	17.0%	27.0 %	16.9 %	Yes
CC&L Group Money Market Fund as a % of the total portfolio	0.0 %	0.0%	15.0 %	0.0 %	Yes
CC&L Short Term Bond Fund as a % of the total portfolio	35.0 %	50.0%	60.0 %	50.4 %	Yes

All percentages set out below are based on market values except if noted otherwise.

Law Society of Ontario (Compensation Fund)

Concentration Tests	Min	Target	Max	Actual	Compliance
Asset Mix					
Fixed income as a % of the total portfolio	55.0 %	65.0%	75.0 %	65.4 %	Yes
Total Equities as a % of the total portfolio	25.0 %	35.0%	45.0 %	34.6 %	Yes
NS Partners Global Equity Fund as a % of the total portfolio	13.0 %	23.0%	33.0 %	22.6 %	Yes
CC&L Canadian Equity Fund as a % of the total portfolio	2.0 %	12.0%	22.0 %	12.0 %	Yes
CC&L Group Money Market Fund as a % of the total portfolio	0.0 %	0.0%	15.0 %	0.0 %	Yes
CC&L Short Term Bond Fund as a % of the total portfolio	50.0 %	65.0%	75.0 %	65.4 %	Yes

All percentages set out below are based on market values except if noted otherwise.

Law Society of Ontario (Errors & Omissions)

Concentration Tests	Min	Target	Max	Actual	Compliance
Asset Mix					
Fixed income as a % of the total portfolio	60.0 %	70.0%	80.0 %	70.4 %	Yes
Total Equities as a % of the total portfolio	20.0 %	30.0%	40.0 %	29.6 %	Yes
NS Partners Global Equity Fund as a % of the total portfolio	10.0 %	20.0%	30.0 %	19.6 %	Yes
CC&L Canadian Equity Fund as a % of the total portfolio	0.0 %	10.0%	20.0 %	10.0 %	Yes
CC&L Group Money Market Fund as a % of the total portfolio	0.0 %	0.0%	15.0 %	0.0 %	Yes
CC&L Short Term Bond Fund as a % of the total portfolio	55.0 %	70.0%	80.0 %	70.4 %	Yes