



TAB 8

**Report to Convocation
November 28, 2014**

Audit & Finance Committee

Committee Members

Christopher Bredt (Co-Chair)

Peter Wardle (Co-Chair)

Adriana Doyle (Vice-Chair)

John Callaghan

Susan Elliott

Seymour Epstein

Michelle Haigh

Vern Krishna

Judith Potter

James Scarfone

Alan Silverstein

Catherine Strosberg

Purpose of Report: Information

**Prepared by the Finance Department
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COMMITTEE PROCESS

1. The Audit & Finance Committee (“the Committee”) met on November 11, 2014. Committee members in attendance were Chris Bredt (co-chair), Adriana Doyle (vice-chair), John Callaghan, Vern Krishna, Judith Potter, James Scarfone (phone), Alan Silverstein (phone) and Catherine Strosberg.
2. Law Society staff in attendance: Robert Lapper, Terry Knott, Fred Grady, Brenda Albuquerque-Boutilier, Suzanne Douglas and Andrew Cawse.
3. Also attending were Stephanie Kalinowski (Hicks Morley) and Paula Jesty, Steve Stewart and Pina Colavecchia (Deloitte LLP).

TAB 8.1

FOR INFORMATION
LAW SOCIETY OF UPPER CANADA FINANCIAL STATEMENTS FOR THE NINE
MONTHS ENDED SEPTEMBER 30, 2014

4. **Convocation is requested to receive the third quarter financial statements for the Law Society for information.**

Rationale

5. This is part of the quarterly financial reporting schedule to Convocation. These interim statements convey the performance of the Law Society before the end of the year. Unlike annual statements, interim statements are not audited.

**Law Society of Upper Canada
Financial Statements
For the nine months ended September 30, 2014**

Financial Statement Highlights

6. The Lawyer General Fund incurred a surplus of \$1.6 million at the end of the third quarter of 2014, compared to a surplus of \$1.9 million in 2013 and a budgeted deficit for the period of \$1.3 million. The Paralegal General Fund generated a surplus of \$787,000 at the end of the third quarter of 2014 compared to \$784,000 for 2013 and a budgeted deficit for the period of \$275,000. Annual fees, professional development, investment income and other revenues are all above budget. All of the expense categories on the financial statements are close to or less than budget, although there are some noteworthy negative variances in the individual accounts.
7. The Law Society's restricted funds report a deficit of \$10.7 million. As anticipated in the insurance contract with LAWPRO, the E&O Fund is providing a \$5 million premium contribution to reduce the lawyer's base premium and this is the primary reason for the E&O Fund experiencing a deficit of \$4.6 million. The Invested in Capital Assets Fund experienced a deficit of \$2.4 million from the anticipated amortization for the year. Two large scale defalcations have been the major reason for the \$2.5 million deficit in the Lawyer Compensation Fund.
8. Overall, the Law Society is on track to meet or exceed its 2014 budget expectations and its financial position remains strong.

Background

9. The Financial Statements are prepared under Generally Accepted Accounting Principles for Canadian not-for-profit organizations using the restricted fund method of accounting.
10. The Financial Statements for the nine months ended September 30, 2014 comprise the following statements:
 - Balance Sheet
 - 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 Schedules of Revenues and Expenses for the Combined General Fund, Lawyer and Paralegal General Funds, the Compensation Fund and the Errors and Omissions Insurance Fund.

Overview

11. Operationally in the General Fund, revenues to date exceed budget by approximately 4% or just over \$2.6 million with revenues from annual fees, the licensing process and investment income particularly contributing to the excess revenue, although lawyer continuing professional development revenue is \$555,000 under budget.
12. Expenses to date are under budget by approximately \$1.8 million or 3%, primarily in CPD and benchers remuneration. There are negative variances in the Licensing Practice Program but these are attributable to the timing of payments to Ryerson and the University of Ottawa and will correct by year end. Spending for the whole year on outside counsel and expert witnesses within professional regulation is projected to track significantly higher than approved budget for these expenses.
13. The 2014 budget included a contingency provision of \$1 million for potential restructuring costs and an additional provision of \$250,000 for severances for a total of \$1.25 million. To date, restructuring costs, including severances, have totaled just over \$1.4 million. However, \$350,000 has previously been allocated from the contingency to the Office of the General Counsel to finance anticipated outside counsel fees. It is expected that these significant negative variances will be offset by budgetary savings in other expense categories.
14. The approved 2014 budget included the transfer of \$6.0 million from the General Fund balance to the Capital Allocation Fund dedicated to the revitalization of the Law Society's information systems. This is included in the interfund transfers set out on row 10 of the Schedule of Restricted Funds.
15. A detailed discussion of the September 30, 2014 interim financial statements follows.

Balance Sheet

16. Short-term investments have increased to \$27.4 million with surpluses over the last twelve months and the investment manager adopting a conservative approach with an increased short-term orientation.
17. Most of the prepaid expense balance relates to annual E&O insurance premiums paid or payable for the year, which are expensed over the full year.
18. The Investment in LAWPRO totaling \$35.6 million is made up of two parts. The investment represents the share capital of \$4,997,000 purchased in 1991 when LAWPRO was established, plus contributed capital of \$30,645,000 accumulated between 1995 and 1997 from a special capitalization levy by the Law Society.
19. Portfolio investments are shown at fair value of \$75.7 million, compared to \$75.4 million in 2013. The short-term components of these investments are re-categorized to the "cash and short-term investments" line on the balance sheet which have increased by \$7 million reflecting the investment manager's asset mix and the realized and unrealized returns over the period. In 2014, \$1.5 million has been transferred from the E&O Fund portfolio in compliance with the budget to fund the transfer to the General Fund. Approximately 20% of the portfolio is held in equity investments. Investments are held in the following funds:

Fund (\$ 000's)	Sep. 30, 2013	Sep. 30, 2014
Errors & Omissions Insurance	29,075	29,068
Compensation Fund	32,170	32,411
General Fund	14,207	14,267
Total	75,452	75,746

20. Liability balances at the end of September 2014 have all increased, primarily due to differences in timing, although the increase in provision for Compensation Fund grants is addressed separately below. The E&O Fund's amount due to LAWPRO has increased by \$7 million due to the scheduling of payments. The payable will decline by year-end as insurance premiums and levies collected are paid to LAWPRO. Any balance owing to LAWPRO at year end is paid by March 31 of the following year. Deferred fee and premium revenue will be recognized over the remainder of the year.
21. The provision for unpaid grants / claims comprises the provision for unpaid grants – Compensation Fund and the provision for unpaid claims – E&O Fund with balances at the end of September 2014 of \$13.4 million and \$148,000 respectively compared to prior year balances of \$9.6 million and \$446,000 with reasons for the increase explained in the expenditures section. The provision for unpaid grants in the Compensation Fund represents the estimate for unpaid claims and inquiries against the Compensation Fund, supplemented by the costs for processing these claims. The provision for unpaid claims in the E&O Fund represents claims liabilities for 1995 and prior.
22. The Law Society Act permits a member who has dormant trust funds, to apply for permission to pay the money to the Society. Money paid to the Society is held in trust in perpetuity for the purpose of satisfying the claims of the persons who are entitled to the capital amount. At the end of September, unclaimed money held in trust amounts to \$3.4 million, compared to \$3.2 million in the prior year.

Statement of Revenues and Expenses and Change in Fund Balances

23. The Lawyer General Fund has a surplus of \$1.56 million at the end of the third quarter of 2014, compared with a surplus of \$1.9 million in the first nine months of 2013. As noted in the highlights, the reasons for this positive financial performance are spread across a number of revenue and expense categories. The 2014 year-to-date results can be viewed as relatively better than 2013 as the budget anticipated the reduced use of fund balances – the allocation of \$1.5 million from the accumulated surplus investment income in the E&O Fund (2013: \$3 million) and the allocation of \$446,000 from the General Fund accumulated surplus (2013: \$2.75 million). Actual use of these funds is contingent on results for the year although the \$1.5 million in accumulated surplus investment income from the E&O Fund has been transferred as budgeted to the General Fund.
24. The Paralegal General Fund had a surplus of \$787,000 versus a surplus of \$784,000 last year. The 2014 budget envisaged the allocation of \$313,000 from the General Fund accumulated surplus to mitigate fee increase for paralegals (2013: \$810,000). Actual use of these funds is contingent on results for the year.
25. The Society's restricted funds report a deficit of \$10.7 million for the period (2013: deficit of \$1.7 million). The current deficit is primarily attributable to:
- the \$4.6 million deficit in the E&O Fund brought about by the fund's prorated 2014 premium contribution (the insurance contract with LAWPRO includes a \$5 million premium contribution in 2014 to reduce the base premium) and a year-to-date short fall in transaction levies;
 - the \$2.5 million deficit in the Lawyer Compensation Fund due to an increase in claims and grants anticipated to be closed with payment;
 - the \$2.4 million amortization expense in the Invested in Capital Assets Fund;
 - the \$1.3 million deficit in the Capital Allocation Fund as capital expenditures funded from the previously approved \$6 million transfer from the General Fund commence.
26. Annual fee revenue is recognized on a monthly basis. Total annual fees recognized in the first three quarters have increased. There were fluctuations in the individual fee components but overall, the Lawyer Annual Fee increased by \$15 from 2013 and the number of lawyer and paralegal members billed increased. 37,200 full time equivalent lawyers were used as the basis for the number of members in the 2014 budget, an increase of 600 from 2013, and paralegals increased by 300 to 4,350. Annual fee revenues in total have increased from \$52.9 million to \$55 million.
27. LAWPRO's base premium of \$3,350 has not changed from 2013. Premium and levy revenue at \$76.7 million slightly increased from \$75.3 million because of the increase in the number of lawyers.
28. Professional development and competence revenue comprises licensing process and continuing professional development revenue:
- At \$8.5 million, lawyer licensing process revenue has increased by \$2.9 million compared to last year. The Law Society is undertaking a pilot project that will allow lawyer licensing candidates to either article or complete a Law Practice Program (LPP), starting in the 2014-2015 licensing year. The first LPP commenced in the fall of 2014. The total Licensing Process fee for 2014-2015, including the fees for the

initial application, the Barrister and Solicitor Licensing Examinations and the Call to the Bar is \$4,710 compared to \$2,810 per candidate in 2013 for all fees associated with licensing.

- At \$1.5 million, paralegal licensing process revenue is slightly less than the \$1.7 million last year but exceeds budget for the entire year by \$300,000.
 - Lawyer continuing professional development revenue of \$4.5 million is the same as last year but \$500,000 under budget for the period attributed to lower than anticipated program registrations and related publication sales. Traditionally, the Fall has been CPD's busiest period and registrations will continue to be closely monitored. The 2015 budget has been adjusted for the registration experience in 2014.
29. At \$3.7 million, total investment income is exceeding the 2013 third quarter amount of \$3 million because of the appreciation in the market value of equities although the upward trend appears to have moderated and volatility continues in the fourth quarter.
 30. Other income primarily comprises late fees, catering, monitoring & enforcement revenues, Ontario Reports and the LibraryCo administration fee.
 31. Total regulatory expenses of \$20.6 million have increased by \$1.5 million compared to last year due to the establishment of the Tribunal office and increased spending on outside counsel fees. Spending on outside counsel and expert witnesses within professional regulation is projected to track significantly higher than approved budget for these expenses. Year-to-date expenditures total \$1.8 million in these categories compared to the budget for the whole year of \$1.6 million. Although this trend is expected to slow down there is still a significant negative variance from budget projected.
 32. Total professional development and competence expenses have increased from \$15.5 million to \$19 million. The major difference occurs in the lawyer licensing process where expenses of \$7.5 million have increased by \$4 million from 2013 because of payments for the LPP to Ryerson and Ottawa universities. CPD expenses are \$300,000 less than last year at \$2.6 million and \$500,000 under budget with the variance spread across most program expenses.
 33. Corporate services expenses include Finance & the CEO, Facilities, the Client Service Centre, Information Systems and Human Resources and have increased from \$15.9 million to \$16.2 million. Severance costs arising from the operational review have exceeded the severance and contingency budget but savings in other areas means corporate service expenses are only exceeding budget for the period by \$250,000.
 34. Expenditures on outside counsel fees in both the Professional Regulation and the Office of the General Counsel are trending significantly above budget in both areas. Year-to-date regulatory expenditures on counsel fees total \$1.7 million compared to the budget for the year of \$1.6 million. Year-to-date Office of the General Counsel expenditures on counsel fees total \$448,000 compared to the budget for the year of \$483,000 (after being supplemented by \$350,000 from the contingency).
 35. Convocation, policy and outreach expenses primarily comprises Policy Equity & Public Affairs and bench expenses and total \$5.9 million compared to \$5.6 million in 2013 primarily because of expenses associated with the new office of Executive Director,

Policy, Equity and Public Affairs. Benchers expenses are under budget by \$400,000 but the timing of benchers remuneration and expenses is not regular and depends on submissions from benchers.

36. Service to members and the public expenses primarily comprise the Law Society Referral Service, Catering, CANLII and the Member Assistance Plan and total \$3 million, the same as the first three quarters of 2013.

Schedule of Restricted Funds

37. Expenses in the Errors and Omissions Insurance Fund have increased from \$75.8 million to \$82.6 million. The fund is reporting a deficit of \$4.6 million due to the use of \$5 million of the fund balance to mitigate the 2014 base insurance levy for lawyers and a year-to-date shortfall in transaction levies.
38. Compensation Fund expenses have increased from \$7.2 million to \$11.1 million because of an increase in the provision for unpaid grants during the period from \$707,000 to \$4.8 million.
39. County Libraries Fund expenses are relatively static at \$5.6 million.

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IN CAMERA MATERIAL*

THE LAW SOCIETY OF UPPER CANADA

Balance Sheet

Unaudited

Stated in thousands of dollars

As at September 30

	2014	2013
Assets		
Current Assets		
1 Cash	23,823	25,375
2 Short-term investments	27,398	19,123
3 Cash and short-term investments	51,221	44,498
4 Accounts receivable	18,207	16,932
5 Prepaid expenses	29,863	27,437
6 Total current assets	99,291	88,867
7 Investment in subsidiaries	35,642	35,642
8 Portfolio investments	75,746	75,452
9 Capital assets	11,201	12,311
10 Total Assets	221,880	212,272
Liabilities and Fund Balances		
Current Liabilities		
11 Accounts payable and accrued liabilities	8,111	6,819
12 Deferred revenue	45,099	42,026
13 Due to LAWPRO	26,487	19,424
14 Total current liabilities	79,697	68,269
15 Provision for unpaid grants/claims	13,520	10,088
16 Unclaimed trust funds	3,422	3,182
17 Total Liabilities	96,639	81,539
Fund Balances		
General funds		
18 Lawyers	18,495	22,158
19 Paralegals	2,686	1,631
Restricted funds		
20 Compensation - lawyers	23,369	25,897
21 Compensation - paralegals	502	381
22 Errors and omissions insurance	58,914	63,364
23 Capital allocation	8,660	3,719
24 Invested in capital assets	11,201	12,310
24 County libraries	8	-
25 Other	1,406	1,273
26 Total Fund Balances	125,241	130,733
27 Total Liabilities and Fund Balances	221,880	212,272

THE LAW SOCIETY OF UPPER CANADA

Statement of Revenues and Expenses and Change in Fund Balances

Unaudited

Stated in thousands of dollars

For the nine months ended September 30

	2014	2013	2014	2013	2014	2013	2014	2013
	General Fund Lawyer		General Fund Paralegal		Restricted Funds		Total	
Revenues								
1 Annual fees	37,611	35,679	2,716	2,209	14,714	14,992	55,041	52,880
2 Insurance premiums and levies	-	-	-	-	76,711	75,282	76,711	75,282
3 Professional development and competence	13,033	10,167	2,040	2,038	-	-	15,073	12,205
4 Investment income	880	741	73	61	2,729	2,217	3,682	3,019
5 Other	4,668	4,590	379	398	166	179	5,213	5,167
6 Total revenues	56,192	51,177	5,208	4,706	94,320	92,670	155,720	148,553
Expenses								
7 Professional regulation, tribunals and compliance	19,079	17,750	1,560	1,379	-	-	20,639	19,129
8 Professional development and competence	17,576	14,180	1,432	1,321	-	-	19,008	15,501
9 Corporate services	15,014	14,740	1,236	1,165	-	-	16,250	15,905
10 Convocation, policy and outreach	5,520	5,238	411	350	-	-	5,931	5,588
11 Services to members and public	2,889	2,944	157	145	-	-	3,046	3,089
12 Allocated to Compensation Fund	(5,446)	(5,583)	(375)	(438)	-	-	(5,821)	(6,021)
13 Restricted (schedule of restricted funds)	-	-	-	-	104,981	94,394	104,981	94,394
14 Total expenses	54,632	49,269	4,421	3,922	104,981	94,394	164,034	147,585
15 Surplus (deficit)	1,560	1,908	787	784	(10,661)	(1,724)	(8,314)	968
16 Fund balances, beginning of year	21,410	17,385	1,882	847	110,263	111,533	133,555	129,765
17 Interfund transfers	(4,475)	2,865	17	-	4,458	(2,865)	-	-
18 Fund balances, end of period	18,495	22,158	2,686	1,631	104,060	106,944	125,241	130,733

Convocation - Audit and Finance Committee Report

THE LAW SOCIETY OF UPPER CANADA

Schedule of Restricted Funds

Unaudited

Stated in thousands of dollars

For the nine months ended September 30

	2014							2013	
	Compensation Fund		Errors and omissions insurance	Capital allocation	Invested in capital assets	County libraries	Other restricted	Total Restricted funds	Total
	Lawyer	Paralegal							
1 Fund balances, beginning of year	25,829	419	65,042	3,953	13,653	-	1,367	110,263	111,533
Revenues									
2 Annual fees	6,636	489	-	1,557	-	5,632	400	14,714	14,992
3 Insurance premiums and levies	-	-	76,711	-	-	-	-	76,711	75,282
4 Investment income	1,500	-	1,229	-	-	-	-	2,729	2,217
5 Other	82	4	-	80	-	-	-	166	179
6 Total revenues	8,218	493	77,940	1,637	-	5,632	400	94,320	92,670
Expenses									
Allocated expenses	5,446	375	-	-	-	-	-	5,821	6,021
Direct expenses	5,232	35	82,568	2,967	2,452	5,624	282	99,160	88,373
7 Total expenses	10,678	410	82,568	2,967	2,452	5,624	282	104,981	94,394
8 (Deficit) Surplus	(2,460)	83	(4,628)	(1,330)	(2,452)	8	118	(10,661)	(1,724)
9 Interfund transfers	-	-	(1,500)	6,037	-	-	(79)	4,458	(2,865)
10 Fund balances, end of period	23,369	502	58,914	8,660	11,201	8	1,406	104,060	106,944

THE LAW SOCIETY OF UPPER CANADA
Lawyers and Paralegals General Fund
Schedule of Revenues and Expenses

Unaudited

Stated in thousands of dollars

For the nine months ended September 30

	2014 Actual	Budget YTD	Variance
REVENUES			
1 Annual fees	40,327	39,391	936
2 Professional development and competence	15,073	14,151	922
3 Investment income	953	579	374
4 Ontario reports revenue	1,266	1,227	39
5 Other	3,781	3,425	356
6 Total revenues	61,400	58,773	2,627
EXPENSES			
7 Professional regulation, tribunals and compliance	20,639	20,763	124
8 Professional development and competence	19,008	19,853	845
9 Corporate services	16,250	16,091	(159)
10 Convocation, policy and outreach	5,931	6,523	592
11 Services to members and public	3,046	3,195	149
12 Allocated to Compensation Fund	(5,821)	(6,041)	220
13 Total expenses	59,053	60,384	1,771
14 Surplus (Deficit)	2,347	(1,611)	4,398

THE LAW SOCIETY OF UPPER CANADA
General Fund - Lawyers
Schedule of Revenues and Expenses

Unaudited

Stated in thousands of dollars

For the nine months ended September 30

	2014 Actual	Budget YTD	Variance
REVENUES			
1 Annual fees	37,611	36,807	804
2 Professional development and competence	13,033	12,699	334
3 Investment income	880	539	341
4 Ontario reports revenue	1,180	1,141	39
5 Other	3,488	3,145	343
6 Total revenues	56,192	54,331	1,861
EXPENSES			
7 Professional regulation, tribunals and compliance	19,079	19,149	70
8 Professional development and competence	17,576	18,307	731
9 Corporate services	15,014	14,763	(251)
10 Convocation, policy and outreach	5,520	6,070	550
11 Services to members and public	2,889	3,023	134
12 Allocated to Compensation Fund	(5,446)	(5,645)	199
13 Total expenses	54,632	55,667	1,433
14 Surplus (Deficit)	1,560	(1,336)	3,294

THE LAW SOCIETY OF UPPER CANADA
General Fund - Paralegals
Schedule of Revenues and Expenses

Unaudited

Stated in thousands of dollars

For the nine months ended September 30

	2014 Actual	Budget YTD	Variance
REVENUES			
1 Annual fees	2,716	2,584	132
2 Professional development and competence	2,040	1,452	588
3 Investment income	73	40	33
4 Ontario reports revenue	86	86	-
5 Other	293	280	13
6 Total revenues	5,208	4,442	766
EXPENSES			
7 Professional regulation, tribunals and compliance	1,560	1,614	54
8 Professional development and competence	1,432	1,546	114
9 Corporate services	1,236	1,328	92
10 Convocation, policy and outreach	411	453	42
11 Services to members and public	157	172	15
12 Allocated to Compensation Fund	(375)	(396)	21
13 Total expenses	4,421	4,717	338
14 Surplus (Deficit)	787	(275)	1,104

THE LAW SOCIETY OF UPPER CANADA**Compensation Fund****Schedule of Revenues and Expenses and Change in Fund Balances***Unaudited**Stated in thousands of dollars**For the nine months ended September 30*

	2014			2013		
	Lawyers	Paralegals	Total	Lawyers	Paralegals	Total
Revenues						
1 Annual fees	6,636	489	7,125	6,010	447	6,457
2 Investment income	1,500	-	1,500	1,196	-	1,196
3 Recoveries	82	4	86	91	-	91
4 Total Revenues	8,218	493	8,711	7,297	447	7,744
Expenses						
5 Provision for unpaid grants	4,799	35	4,834	695	12	707
6 Spot audit	2,940	244	3,184	2,985	290	3,275
7 Share of investigation and discipline	1,495	53	1,548	1,398	63	1,461
8 Administrative	1,074	78	1,152	1,293	84	1,377
9 Salaries and benefits	370	-	370	361	-	361
10 Total Expenses	10,678	410	11,088	6,732	449	7,181
11 (Deficit) Surplus	(2,460)	83	(2,377)	565	(2)	563
12 Fund balances, beginning of year	25,829	419	26,248	25,331	383	25,714
13 Fund Balances, end of period	23,369	502	23,871	25,896	381	26,277

THE LAW SOCIETY OF UPPER CANADA
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

	2014 Actual	2013 Actual
REVENUES		
1 Insurance premiums and levies	76,711	75,282
2 Investment income	1,229	1,021
3 Other income	-	-
4 Total revenues	77,940	76,303
EXPENSES		
5 Claims	(3)	91
6 Insurance	82,571	75,758
7 Total expenses	82,568	75,849
8 (Deficit) Surplus	(4,628)	454
9 Interfund transfers	(1,500)	(3,000)
10 Change in fund balance	(6,128)	(2,546)
11 Fund balance, beginning of year	65,042	65,910
12 Fund balance, end of period	58,914	63,364

FOR INFORMATION**INTRODUCTION OF ELECTRONIC ANNUAL FEE BILLING**

44. **Convocation is requested to receive an update on the Society's intention to introduce electronic billing for 2015 annual fees.**

Rationale

45. The Law Society Portal, the Society's secure electronic interface with licensees, was introduced in 2011, primarily for the purpose of lawyers and paralegals updating their personal information and reporting their CPD requirements to the Society. It has subsequently expanded to include filing of the Annual Report and changes to licensees' status. Increasingly, the Law Society Portal, is becoming a primary tool for two way communication between the Society and licensees.
46. For several years, the Finance Department has considered the implementation of electronic billing as a replacement for the traditional paper, surface mail based billing system. Due to operational priorities and resource constraints, the plan never went beyond the conceptual stage. In early 2014, the Society's senior management opted to pursue electronic billing for the 2015 fee year. The expanded use of the Law Society Portal presents the opportunity for secure delivery and payment of the annual fee.
47. For 2015 and beyond, the Law Society Portal will become the vehicle by which all fee paying licensees receive their annual fee invoice, subsequent monthly statements and correspondence related to their annual fees. It is the intention of the Finance Department to end the practice of providing paper invoices delivered by mail to lawyers and paralegals¹.
48. The benefits to the Law Society include:
- a) Improved security in processing Law Society revenues and fund transfers
 - b) Improved efficiency in processing Law Society revenues and less risk of errors
 - c) Faster processing of Law Society revenues
 - d) Replaces cumbersome and expensive mailing process
 - e) Draws licensees to the Law Society Portal as part of their "one-stop shopping" at the Law Society.
49. The benefits for Licensees include on-line access to their financial transactions and improved security and efficiency, both in paying the annual fee and in any subsequent status changes.

¹ The cost to the Society of producing and delivering close to 50,000 paper invoices and subsequent reminder notices would cost in excess of \$100,000 in 2015 and costs are expected to increase with Canada Post increasing basic postage rates going forward.

Key Issues and Considerations

50. Licensees will, for 2015 and beyond, be notified via the e-mail address they list on the member data base that their annual fee invoice has been posted to their portal account. The current process of mailing out reminder notices for unpaid amounts will cease and be replaced with monthly statements being posted to the portal and the licensee being notified via email of the availability of the statement.
51. Similar to the introduction of late fees for annual fee payments and late filing fees, a communication plan to licensees will commence in the fall with notice in the Gazette, the Ontario Reports, posting on the Law Society Web site, social media as well as the Law Society Portal itself.
52. Licensees currently have a variety of options for payment of their annual fees. Payment can be made by cheque, money order, bank draft, internet banking, credit card, debit card, pre-authorized debit and cash. In order of magnitude, cheques and credit card each account for approximately 40% of payments, pre-authorized debit about 15% and the remaining 5% largely made up of internet banking payments.
53. The introduction of electronic billing would not change these accepted payments methods. However, there will be a significant change in the way credit card payments are accepted.
54. The member's portal account will allow the member to view his/her invoice and pay directly via credit card and receive an e-mail confirmation of payment without having to leave their portal account. It is the intention of the Finance Department to continue accepting credit card payments utilizing the member portal account as this system will integrate with the Society's payment processing system, significantly reducing the processing time devoted to this activity by staff in the department. To maximize the benefits of payment by credit card through the portal account, it is the Finance Department's intention to restrict payment by credit cards to the portal and the Society's membership services window. The Society will no longer accept credit card payment via fax, email, mail or by phone. This will be a significant change in payment policy but one that will maximize efficiencies in the Finance Department and significantly reduce the risk associated with cardholder information being transmitted via fax, email, mail or phone.
55. The Finance Department will continue to work with firms by, upon request, sending them worksheets of licensees identified as members of the firm to facilitate firm payments. Lump sum credit card payments for multiple licensees will no longer be possible as the only means of paying by credit card will be through the payment processing functionality built into the individual licensee's portal account.
56. For 2014, approximately 16,300 lawyers and 3,100 paralegals or approximately 40% of lawyers and 60% of paralegals made payment by credit card. In terms of bulk credit card payments, 17 payments representing 1,385 lawyers in firms of 20 or more were made in a single credit card transaction totaling \$2.8 million. For paralegals the vast majority of credit card payments were by individual with only 5 bulk payments of 5 or more paralegals in a single transaction.

57. Future plans for the portal include the development of a firm portal site that may mitigate the issues faced by firms paying for individual licensee's annual fees directly. However, that development is unlikely to happen in the immediate future.
58. This proposal begins a series of automation activities planned by the Finance Department over the upcoming years to improve efficiency, lower costs and where possible, employ technology in place of manual processing.

FOR INFORMATION

J.S. DENISON FUND

59. Convocation is requested to receive an information report on John Shirley Denison, marking the end of the Fund he established to assist indigent lawyers.
60. The current J.S. Denison Fund grant request, submitted to Convocation for approval in camera, is the last to be paid out of the J.S Denison Fund as all money in the Fund has now been distributed.
61. John Shirley Denison K.C. was born in 1870, was called to the bar in 1892 and practiced in Toronto. He died in 1951.
62. Mr. Denison's Treasurer's portrait is hung in the corridor outside the north entrance to the bencher's quarters, with a plaque describing his bequest. He held the following Law Society Offices:
 - Bencher Term: 1931-1944
 - Life Bencher Term: 1946-1951
 - Treasurer Term: 1944-1947
63. Mr. Denison practiced law with the same partner for over forty years. He jointly produced a number of volumes on railway law, some of which are still available on Amazon. He lectured at Osgoode Hall in Wills, Property and Conveyancing. He was particularly well known for his great interest and contribution to the work of the Society. His will contained the following provision:
 - "my Trustee shall ... pay to or deliver to the Law Society of Upper Canada the residue of my estate the same to be applied from time to time by the Treasurer and Benchers and both as to capital and income as they may see fit for the relief of impoverished or indigent members of the Law Society and of their wives widows and children including among such wives widows and children those of any member of the Law Society who may have been disbarred or suspended."
64. The capital receipt in 1968 was \$190,005. There were times when payments from the Fund did not exceed the interest earned on the capital sum. More recently, payments have increased due to factors such as increased publicity for the Fund. Since 2000, the Fund has paid a total of \$432,000 to 134 applicants.

TAB 8.4

FOR INFORMATION

INVESTMENT COMPLIANCE REPORTING

65. Convocation is requested to receive the Compliance Statements for the General Fund, Compensation Fund, and Errors & Omissions Insurance Fund investment portfolios as at September 30, 2014 for information.

**STATEMENT OF INVESTMENT COMPLIANCE
SHORT TERM
As at September 30, 2014**

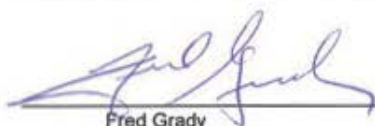
Investment Parameters	Guidelines for Both	COMPENSATION FUND	GENERAL FUND
		Compliance	Compliance
1. <u>Asset Mix</u>			
Federal & provincial treasury bills	Allowed	Yes	Yes
Bankers acceptances	Allowed	Yes	Yes
Commercial paper	Allowed	Yes	Yes
Investment manager Money Market Fund	Allowed	Yes	Yes
Premium Savings Account	Allowed	Yes	Yes
FGP S/T Invest Fund	Allowed	Yes	Yes
2. <u>Quality Requirements</u>			
Commercial paper rating	Min. R1	N/A	N/A
Liquidity	Max. term to maturity of 365 days	Yes	Yes
3. <u>Quantity Restrictions</u>			
Commercial paper of a single corporate issuer	Max. 8% of Fund	Yes	Yes
4. <u>Other Restrictions</u>			
Equity securities	None	Yes	Yes
Direct investments in:			
resource properties	None	Yes	Yes
mortgages and mortgage-backed securities	None	Yes	Yes
real estate	None	Yes	Yes
venture capital financings	None	Yes	Yes
Derivatives	None	Yes	Yes



Fred Grady
Manager of Finance

**STATEMENT OF INVESTMENT COMPLIANCE
LONG TERM
As at September 30, 2014**

Investment Parameters	Guidelines	COMPENSATION	GENERAL	E & O
		FUND	FUND	FUND
		Compliance	Compliance	Compliance
1. <u>Asset Mix</u>				
Cash and Short-Term	0 - 15%	Yes	Yes	Yes
Equity investments	5 - 25%	Yes	Yes	Yes
Bonds	60 - 95%	Yes	Yes	Yes
2. <u>Quality Requirements</u>				
Bonds	Min. BBB	Yes	Yes	Yes
3. <u>Quantity Restrictions</u>				
Equities:				
single holding	Max. 10%	Yes	Yes	Yes
weight in portfolio > weight in S&P/TSX Composite Index	Varies	Yes	Yes	Yes
derivatives etc.	None	Yes	Yes	Yes
Non-Canadian	None	Yes	Yes	Yes
Bonds:				
single security or issuer (non-government)	Max. 10%	Yes	Yes	Yes
corporate issues	Max 50%	Yes	Yes	Yes
provincial govt. issues	Max 60%	Yes	Yes	Yes
municipal issues	Max 10%	Yes	Yes	Yes
foreign issues	Max 10%	Yes	Yes	Yes
BBB issues	Max. 10%	Yes	Yes	Yes



Fred Grady
Manager of Finance

**The Law Society of Upper Canada
Compensation Fund
Manager: Foyston, Gordon & Payne Inc.
Compliance Report
(Period ending September 30, 2014)**

1. Asset Mix:	Min.	Mid-Point	Max.	Compliance* (Y/N)
Cash & Short Term	0%	0%	15%	Y
Bonds	60%	85%	95%	Y
Total Fixed Income	75%	85%	95%	Y
Canadian Equity	5%	15%	25%	Y
Minimum bond rating "BBB" or better by the Dominion Bond Rating Service or equivalent rating by another recognized bond rating service.				Y
Max. 10% in BBB rated bonds.				Y
Max. 100% in Government of Canada or Government of Canada guaranteed bonds.				Y
Max. 60% in Provincial government and Provincial government guaranteed bonds.				Y
Max. 10% in Municipal bonds.				Y
Max. 50% in Corporate issues.				Y
Max. 10% in non-Government issuers.				Y
Not more than 10% of the total market value of the bond portfolio will be invested in securities issued by a foreign issuer, or Canadian issuer in a foreign currency.				Y
Bond portfolio duration 1 to 5 years.				Y

Note: In mid June 2014 Law Society Compensation Fund moved into the FGP Short Term Bond Fund from the segregated Short Term Bonds.

Investment policy dated May 2014.

*If policy not complied with, comment on specifics.

Date: 10/14/14


 Stephen P. Copeland
 Senior Vice President Investments
 & Private Client Services

**The Law Society of Upper Canada
General Fund**

Manager: Foyston, Gordon & Payne Inc.

Compliance Report

(Period ending September 30, 2014)

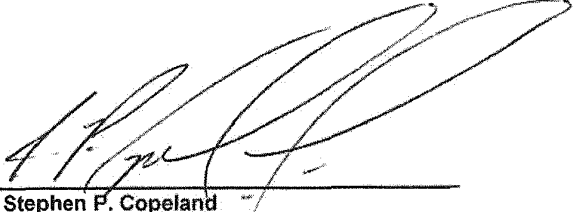
1. Asset Mix:	Min.	Mid-Point	Max.	Compliance* (Y/N)
Cash & Short Term	0%	0%	15%	Y
Bonds	60%	85%	95%	Y
Total Fixed Income	75%	85%	95%	Y
Canadian Equity	5%	15%	25%	Y
Minimum bond rating "BBB" or better by the Dominion Bond Rating Service or equivalent rating by another recognized bond rating service.				Y
Max. 10% BBB rated bonds.				Y
Max. 100% in Government of Canada or Government of Canada guaranteed bonds.				Y
Max. 60% in Provincial government and Provincial government guaranteed bonds.				Y
Max. 10% in Municipal bonds.				Y
Max. 50% in Corporate issues.				Y
Max. 10% in non-Government issuers.				Y
Not more than 10% of the total market value of the bond portfolio will be invested in securities issued by a foreign issuer, or Canadian issuer in a foreign currency.				Y
Bond portfolio duration 1 to 5 years.				Y

Note: In mid June 2014 Law Society General Fund moved into the FGP Short Term Bond Fund from the segregated Short Term Bonds.

Investment policy dated May 2014.

*If policy not complied with, comment on specifics.

Date: 10/14/14


 Stephen P. Copeland
 Senior Vice President Investments
 & Private Client Services



FOYSTON, GORDON & PAYNE INC.

INVESTMENT COUNSEL

October 2014

Ms. Wendy Tysall
Chief Financial Officer
Osgoode Hall
Finance Dept., 1st Floor
130 Queen Street West
Toronto, Ontario
M5H 2N6

Dear Wendy:

Re: Manager Compliance Reporting

For the Law Society of Upper Canada Errors and Omissions Insurance Fund, we wish to confirm that the portfolio being managed by Foyston, Gordon & Payne Inc. was in compliance with the Fund's Investment Policy Statement in effect (latest revision May 2014), for the quarter ending September 30, 2014.

Yours truly,

Stephen P. Copeland
Senior Vice President Investments
& Private Client Services

FOR INFORMATION

OTHER COMMITTEE WORK

66. The Committee received pension plan governance fiduciary training and a triennial assessment of the governance of the Pension Plan.
67. The Committee reviewed the audit plan from the auditors, Deloitte LLP for the 2014 financial year which ends on December 31, 2014.
68. The Committee received the summaries of the Treasurer's expenses, Bencher remuneration and Bencher expense reimbursement as required by the related policies.