



The Law Society of
Upper Canada | Barreau
du Haut-Canada

TAB 7

**Report to Convocation
December 4, 2015**

Audit & Finance Committee

Committee Members

Christopher Bredt (Co-Chair)

Peter Wardle (Co-Chair)

Michelle Haigh (Vice-Chair)

John Callaghan

Suzanne Clément

Paul Cooper

Teresa Donnelly

Seymour Epstein

Rocco Galati

Vern Krishna

Janet Leiper

Catherine Strosberg

Purpose of Report: Information

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TABLE OF CONTENTS

For Information:

Law Society of Upper Canada Third Quarter Financial Statements	TAB 7.1
Investment Compliance Reports.....	TAB 7.2
Other Committee Work	TAB 7.3

COMMITTEE PROCESS

1. The Audit & Finance Committee (“the Committee”) met on November 11, 2015. Committee members in attendance were Christopher Bredt (Co-Chair), Peter Wardle (Co-Chair), John Callagan (phone), Suzanne Clement, Paul Cooper, Teresa Donnelly, Seymour Epstein, Janet Leiper, Catherine Strosberg (phone)
2. Other Benchers in attendance: Raj Anand, Marian Boyd, Cathy Corsetti, Bob Evans, Barbara Murchie.
3. Law Society staff in attendance: Robert Lapper, Wendy Tysall (phone), Elliot Spears, Fred Grady, Brenda Albuquerque-Boutilier, Sophia Sperdakos, Mary Giovinazzo and Andrew Cawse.
4. Also in attendance: Stephanie Kalinowski (Hicks Morley), Michael Hawtin and Michael Tolensky, PriceWaterhouseCoopers (PwC).

FOR INFORMATION

LAW SOCIETY OF UPPER CANADA FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015

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

Rationale

6. 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.
7. The quarterly financial statements for the two subsidiaries, LAWPRO and LibraryCo, will be presented when they have been approved by the respective boards.

**Law Society of Upper Canada
Financial Statements
For the nine months ended September 30, 2015**

Financial Statement Highlights

8. The Lawyer General Fund incurred a surplus of \$2.6 million at the end of the third quarter of 2015, compared to a surplus of \$1.6 million in 2014. The 2015 budget used the General Fund accumulated surplus and a transfer of excess investment income from the E&O Fund as sources of funding to mitigate a fee increase for lawyers, projecting a budgeted deficit for the period of \$2.9 million.
9. The Paralegal General Fund generated a surplus of \$946,000 at the end of the third quarter of 2015 compared to \$787,000 for 2014 and a budgeted deficit for the period of \$521,000.
10. Revenues from annual fees and professional development and competence are above budget although investment income is experiencing a negative variance. All of the expense categories on the financial statements are less than budget, although there are some noteworthy negative variances in individual accounts.
11. The Law Society's restricted funds report a deficit of \$8.7 million (2014: deficit of \$10.7 million) primarily comprising deficits of:
 - \$3.1 million in the Lawyer Compensation Fund as the claims from two major defalcations continue to be processed.
 - \$1.9 million in the E&O Fund. As anticipated in the insurance contract with LAWPRO, the E&O Fund is providing a \$2.5 million premium contribution in 2015 to reduce the lawyer's base premium and this is the primary reason for the E&O Fund experiencing a deficit.
 - \$2.6 million in the Invested in Capital Assets Fund, representing amortization.

Negative Variances or Potential Negative Variances

12. As noted above, all of the expense categories on the financial statements are less than budget, although there are some noteworthy negative variances in some individual accounts discussed in this section.
13. The Office of the General Counsel outside counsel fees are in excess of budget to date. Contingency funds were approved in June 2015 to supplement the amount budgeted.
14. Cost awards arising from the disciplinary process are occasionally awarded against the Law Society. At the current time, there are three matters which may lead to significant cost awards against the Law Society, although, in compliance with generally accepted

accounting principles, there is insufficient certainty for these cost awards to be accrued at this time. There is a high risk of significant awards in all three of the proceedings.

15. The 2015 budget included a contingency provision of \$1 million and an additional provision of \$250,000 for severances for a total of \$1.25 million. It is projected that severance costs will exceed the severance budget and the remaining contingency balance after allocations for other costs.
16. It is expected that these significant negative variances will be offset by budgetary savings in other expense categories. Overall, the Law Society is on track to meet or exceed its 2015 budget expectations and its financial position remains strong.

Background

17. The Financial Statements are prepared under Generally Accepted Accounting Principles for Canadian not-for-profit organizations using the restricted fund method of accounting.
18. The Financial Statements for the nine months ended September 30, 2015 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.

Balance Sheet

19. Cash and short-term investments have increased by \$3 million to \$54 million over the last twelve months with capital transfers from portfolio investments offsetting deficits during the period and the investment manager adopting a conservative approach with an increased short-term orientation.
20. 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.
21. The Investment in LAWPRO totaling \$36 million is made up of two parts. The investment represents the share capital of \$5 million purchased in 1991 when LAWPRO was established, plus contributed capital of \$31 million accumulated between 1995 and 1997 from a special capitalization levy by the Law Society.
22. Portfolio investments are shown at fair value of \$70 million, compared to \$76 million in 2014. 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 reflecting the investment manager’s asset mix. Investment returns over the last twelve months have been modest, verging into a small loss for the 9 months of 2015 and the E&O Fund has withdrawn capital of \$8 million to recoup deficits and fund transfers in recent years. Approximately 20% of the portfolio is held in equity investments. Investments are held in the following funds:

Fund (\$ 000’s)	Sep. 30, 2015	Sep. 30, 2014
Errors & Omissions Insurance	21,368	29,068
Compensation Fund	33,993	32,411
General Fund	15,000	14,267
Total	70,361	75,746

23. Accounts payable and accrued liability balances at the end of September 2015 of \$12 million have experienced a relatively large increase because of the timing of payments, particularly relating to the accrual of biweekly payroll charges.
24. Deferred revenue of \$46 million is made up of annual fees, licensing process revenues and insurance premiums which are recognized over the full year with the increasing balance reflecting the increased underlying revenues in 2015.
25. The E&O Fund’s amount due to LAWPRO has decreased by \$5 million to \$22 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.
26. 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 has increased by \$9 million since September 2014 due to an increase in grants anticipated to be closed with payment primarily arising from two large defalcations in 2014. The Compensation Fund describes a major defalcation as being over 35 claims arising from the conduct of one licensee in a single year. Processing has continued in 2015 with nearly \$4 million in grant expenses in the current year. The paralegal Compensation Fund provision for unpaid grants comprises \$250,000 of the total Compensation Fund provision for unpaid grants.
27. 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 \$4.2 million, compared to \$3.4 million in the prior year.

Statement of Revenues and Expenses and Change in Fund Balances

28. The Lawyer General Fund has a surplus of \$2.6 million at the end of the third quarter of 2015, compared with a surplus of \$1.6 million in the first nine months of 2014. As noted in the highlights, the reasons for this positive financial performance are spread across most revenue and expense categories. The 2015 budget anticipated a deficit for the year with the allocation of \$1.5 million from the accumulated surplus investment income in the E&O Fund and the allocation of \$641,000 from the General Fund accumulated surplus. 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.
29. The Paralegal General Fund had a surplus of \$946,000 versus a surplus of \$787,000 last year. The 2015 budget allocated \$541,000 from the General Fund accumulated surplus to mitigate fee increase for paralegals. Actual use of these funds is contingent on results for the year.
30. The Society's restricted funds report a deficit of \$8.7 million for the period (2014: deficit of \$10.7 million). The current deficit is primarily attributable to:
- the \$1.9 million deficit in the E&O Fund brought about by the fund's prorated 2015 premium contribution (the insurance contract with LAWPRO includes a \$2.5 million premium contribution in 2015 to reduce the base premium) and a small investment loss;
 - the \$3.1 million deficit in the Lawyer Compensation Fund due to an increase in claims and grants anticipated to be closed with payment. As of September 30, 2015, the Compensation Fund provision for unpaid grants (that is, the amount reserved) related to lawyer dishonesty has risen to \$22 million from \$13 million at the same point in 2014. This fluctuation is mainly attributable to a bulk provision for two major defalcations.
 - the \$2.6 million amortization expense in the Invested in Capital Assets Fund;
 - the \$939,000 deficit in the Capital Allocation Fund. The Law Society is in year two of a three year, \$8 million Information Technology capital plan.
31. Interfund transfers are reduced from last year. 2014 included the transfer of \$6.0 million from the General Fund balance to the Capital Allocation Fund as part of the \$8 million dedicated to the revitalization of the Law Society's information technology.
32. 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 remained the same but the number of lawyer and paralegal members billed increased. 38,100 full time equivalent lawyers were used as the basis for the number of members in the 2015 budget, an increase of 900 from 2014, and paralegals increased by 350 to 4,700. Annual fee revenues in total have increased from \$55 million to \$56.5 million.

33. Premium and levy revenue at \$78.6 million slightly increased from \$76.7 million primarily because of the increase in the number of lawyers. LAWPRO's base premium of \$3,350 has not changed from 2014.
34. Professional development and competence revenue comprises licensing process and continuing professional development revenue. There is a higher number of licensing process candidates contributing to both the lawyer and paralegal licensing revenues. In addition, there is an increase in the number of candidates writing the exams multiple times. The higher numbers have increased the expenses to administer exams. Also, there has been an increase in the number of candidates requiring special services, for instance rooms, chairs, proctors, software. Ultimately, the licensing process anticipates a continued favourable position compared to budget at the end of the year.
- At \$8.8 million, lawyer licensing process revenue has increased by \$300,000 compared to last year and exceeds the prorated budget for the year by \$1.5 million. The 2016 budget has been increased to reflect this. The Law Society is in the second year of a three year pilot project that will allow lawyer licensing candidates to either article or complete a Law Practice Program (LPP). The total Licensing Process fee for 2015-2016, including the fees for the initial application, the Barrister and Solicitor Licensing Examinations and the Call to the Bar is \$4,710, the same as last year.
 - At \$1.6 million, paralegal licensing process revenue is nominally higher than last year and is more than the prorated budget for the year by \$300,000.
 - Through September 2015, CPD results continue to be strong. Although registration revenue is modestly under budget year to date, deferred program revenue is modestly higher than this time last year, so the small negative variance may be a timing discrepancy. Course materials and post-program publication sales continue to decrease. Post-program marketing efforts promote on-demand video and electronic materials and in 2016, program registrants will no longer be offered the option of hard copy course materials. Lawyer continuing professional development revenue of \$4.2 million is slightly less than last year and budget for the period although CPD is running ahead on net operating contribution as a result of reductions in related expenses. Traditionally, the Fall has been CPD's busiest period and registrations will continue to be closely monitored.
35. The Law Society is incurring a \$310,000 loss on investments as unrealized losses are offsetting interest income, reflecting capital market conditions and continuing low interest rates. The S&P/TSX Total Return Index return year-to-date is -7%.
36. Other income primarily comprises late fees, catering, monitoring & enforcement revenues, Ontario Reports and the LibraryCo administration fee.
37. Total regulatory expenses of \$20.2 million are slightly less than last year and are \$1.3 million less than budget with the positive variance spread across virtually all departments

and in particular expenditures on outside counsel fees which were relatively high in 2014. Cost awards arising from the disciplinary process are occasionally awarded against the Law Society. At the current time, there are three matters which may lead to significant cost awards against the Law Society, although, in compliance with generally accepted accounting principles, there is insufficient certainty for these cost awards to be accrued at this time.

38. Total professional development and competence expenses at \$19.3 million are virtually the same as 2014 and are \$1.6 million under budget with the biggest variance in continuing professional development where expenses, particularly related to course materials, have decreased in line with related revenues and a shift towards online learning with more registrants viewing programs by live webcast or on demand. The programs are both offering and selling fewer copies of printed materials as registrants grow more comfortable with electronic program materials. Licensing process expense categories are tracking close to budget although as noted in the 2016 budget material, the costs of candidate support services continue to exceed budget.
39. Corporate services expenses include Finance & the CEO, Facilities, the Client Service Centre, Information Technology, Office of the General Counsel (OGC) and Human Resources and have increased from \$16.2 million to \$17 million. Severance costs have exceeded the severance and contingency budget but savings in other areas means corporate service expenses are under budget for the period by \$1.1 million, particularly assisted by savings in most Facilities categories although a part of this variance could be attributable to timing differences.
40. Convocation, policy and outreach expenses primarily comprise policy, equity & public affairs and bench expenses and total \$5.4 million compared to \$5.9 million in 2014. Bench expenses are under budget by \$168,000 but the timing of bench remuneration and expenses is not regular and depends on submissions from benchers. Policy, equity and public affairs includes the Treasurer's Action Group on Access to Justice. The Law Foundation of Ontario approved a grant of \$400,000 for the development and delivery of Access to Justice initiatives in 2015.
41. Service to members and the public expenses primarily comprise the Law Society Referral Service, Catering, CANLII and the Member Assistance Plan and total \$2.8 million, slightly less than the first three quarters of 2014.

Schedule of Restricted Funds

42. The Errors & Omissions Insurance (E&O) Fund accounts for the mandatory professional liability insurance program of the Law Society which is administered by LAWPRO. The insurance premium expense, as well as related levies and income from their investment are tracked within this fund. The Law Society is insured for lawyers' professional liability and recovers annual premium costs from lawyers through a combination of annual base

levies and additional levies that are charged based on a lawyer's claims history, status, and real estate and litigation levies. The fund is reporting a deficit of \$1.9 million (2014 - \$4.6 million deficit) as expected due to the annual use of \$2.5 million (2014 - \$5 million) of the fund balance to mitigate the base insurance levy for lawyers. Revenue from insurance premiums and levies is recognized on a monthly basis. LAWPRO's base premium of \$3,350 has not changed from 2014, with the increase in number of insured's leading to a slight increase in premium and levy revenue to \$78.6 million. Expenses in the Errors and Omissions Insurance Fund have decreased from \$82.6 million to \$80.5 million due to slightly lower transaction levies and history surcharges and as noted above, \$2.5 million was allocated from the fund balance to mitigate the 2015 base insurance levy compared to \$5 million in 2014.

43. The lawyer Compensation Fund annual fee income decreased from \$6.6 million in 2014 to \$6.4 million in line with the reduction in the levy from \$238 to \$225 per lawyer. The paralegal levy also decreased. The Compensation Fund's investment results have swung from a return of \$1.5 million in 2014 to a loss of \$291,000 due market conditions. Total Compensation Fund expenses have decreased from \$11.1 million to \$9.9 million but are still exceptionally high as the claims from the two major defalcations in 2014 are processed. As discussed in the 2016 budget materials, to maintain the fund balance above the minimum level required by Convocation's policy, an increase in the Compensation Fund levy in 2016 to replenish the fund balance has been budgeted.
44. County Libraries Fund expenses are relatively static at \$5.8 million.
45. Included in Other Restricted Funds are expenses for the Parental Leave Assistance Plan of \$156,000. The budget for 2015 raised \$300,000.

Other Schedules

46. Supplementary budget to actual income and expense schedules for the Lawyer General Fund and the Paralegal General Fund follows. Significant variances have been analyzed above.
47. A supplementary income and expense schedule for the Compensation Fund follows with variances analyzed above.
48. A supplementary income and expense schedule for the E&O Fund follows with variances analyzed above.

THE LAW SOCIETY OF UPPER CANADA

Balance Sheet

Unaudited

Stated in thousands of dollars

As at September 30

	2015	2014
Assets		
Current Assets		
1 Cash	24,746	23,823
2 Short-term investments	29,677	27,398
3 Cash and short-term investments	54,423	51,221
4 Accounts receivable	18,235	18,207
5 Prepaid expenses	29,807	29,863
6 Total current assets	102,465	99,291
7 Investment in subsidiaries	35,642	35,642
8 Portfolio investments	70,361	75,746
9 Capital assets	9,904	11,201
10 Total Assets	218,372	221,880
Liabilities and Fund Balances		
Current Liabilities		
11 Accounts payable and accrued liabilities	11,663	8,111
12 Deferred revenue	46,113	45,099
13 Due to LAWPRO	21,832	26,487
14 Total current liabilities	79,608	79,697
15 Provision for unpaid grants/claims	22,200	13,520
16 Unclaimed trust funds	4,180	3,422
17 Total Liabilities	105,988	96,639
Fund Balances		
General funds		
18 Lawyers	22,692	18,495
19 Paralegals	3,920	2,686
Restricted funds		
20 Compensation - lawyers	12,547	23,373
21 Compensation - paralegals	350	498
22 Errors and omissions insurance	54,859	58,914
23 Capital allocation	7,225	8,660
24 Invested in capital assets	9,904	11,201
25 County libraries	-	8
26 Other	887	1,406
27 Total Fund Balances	112,384	125,241
28 Total Liabilities and Fund Balances	218,372	221,880

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

	2015	2014	2015	2014	2015	2014	2015	2014
	General Fund Lawyer		General Fund Paralegal		Restricted Funds		Total	
Revenues								
1 Annual fees	38,345	37,611	3,019	2,716	15,159	14,714	56,523	55,041
2 Insurance premiums and levies	-	-	-	-	78,593	76,711	78,593	76,711
3 Professional development and competence	13,020	13,033	2,158	2,040	-	-	15,178	15,073
4 Investment income	90	880	9	73	(409)	2,729	(310)	3,682
5 Other	5,304	4,668	709	379	192	166	6,205	5,213
6 Total revenues	56,759	56,192	5,895	5,208	93,535	94,320	156,189	155,720
Expenses								
7 Professional regulation, tribunals and compliance	18,500	19,079	1,747	1,560	-	-	20,247	20,639
8 Professional development and competence	17,723	17,576	1,586	1,432	-	-	19,309	19,008
9 Corporate services	15,563	15,014	1,474	1,236	-	-	17,037	16,250
10 Convocation, policy and outreach	4,966	5,520	409	411	-	-	5,375	5,931
11 Services to members and public	2,690	2,889	154	157	-	-	2,844	3,046
12 Allocated to Compensation Fund	(5,249)	(5,446)	(421)	(375)	-	-	(5,670)	(5,821)
13 Restricted (schedule of restricted funds)	-	-	-	-	102,265	104,981	102,265	104,981
14 Total expenses	54,193	54,632	4,949	4,421	102,265	104,981	161,407	164,034
15 Surplus (Deficit)	2,566	1,560	946	787	(8,730)	(10,661)	(5,218)	(8,314)
16 Fund balances, beginning of year	18,507	21,410	2,974	1,882	96,121	110,263	117,602	133,555
17 Interfund transfers	1,619	(4,475)	-	17	(1,619)	4,458	-	-
18 Fund balances, end of period	22,692	18,495	3,920	2,686	85,772	104,060	112,384	125,241

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

	2015							2014	
	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	15,618	426	58,305	8,096	12,549	-	1,127	96,121	110,263
Revenues									
2 Annual fees	6,416	458	-	2,225	-	5,760	300	15,159	14,714
3 Insurance premiums and levies	-	-	78,593	-	-	-	-	78,593	76,711
4 Investment income	(272)	(19)	(118)	-	-	-	-	(409)	2,729
5 Other	109	-	-	83	-	-	-	192	166
6 Total revenues	6,253	439	78,475	2,308	-	5,760	300	93,535	94,320
Expenses									
7 Allocated expenses	5,249	421	-	-	-	-	-	5,670	5,821
9 Direct expenses	4,075	94	80,421	3,247	2,645	5,772	341	96,595	99,160
10 Total expenses	9,324	515	80,421	3,247	2,645	5,772	341	102,265	104,981
11 (Deficit) Surplus	(3,071)	(76)	(1,946)	(939)	(2,645)	(12)	(41)	(8,730)	(10,661)
12 Interfund transfers	-	-	(1,500)	68	-	12	(199)	(1,619)	4,458
13 Fund balances, end of period	12,547	350	54,859	7,225	9,904	-	887	85,772	104,060

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

	2015 Actual	Budget YTD	Variance
REVENUES			
1 Annual fees	41,364	41,102	262
2 Professional development and competence	15,178	13,571	1,607
3 Investment income	99	710	(611)
4 Ontario reports revenue	1,266	1,266	-
5 Other	4,747	3,806	941
6 Total revenues	62,654	60,455	2,199
EXPENSES			
7 Professional regulation, tribunals and compliance	20,247	21,600	1,353
8 Professional development and competence	19,309	20,898	1,589
9 Corporate services	17,037	18,140	1,103
10 Convocation, policy and outreach	5,375	6,013	638
11 Services to members and public	2,844	3,137	293
12 Allocated to Compensation Fund	(5,670)	(5,888)	(218)
13 Total expenses	59,142	63,900	4,758
14 Surplus (Deficit)	3,512	(3,445)	6,957

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

	2015 Actual	Budget YTD	Variance
REVENUES			
1 Annual fees	38,345	38,297	48
2 Professional development and competence	13,020	11,756	1,264
3 Investment income	90	655	(565)
4 Ontario reports revenue	1,169	1,169	-
5 Other	4,135	3,497	638
6 Total revenues	56,759	55,374	1,385
EXPENSES			
7 Professional regulation, tribunals and compliance	18,500	19,741	1,241
8 Professional development and competence	17,723	18,953	1,230
9 Corporate services	15,563	16,556	993
10 Convocation, policy and outreach	4,966	5,531	565
11 Services to members and public	2,690	2,965	275
12 Allocated to Compensation Fund	(5,249)	(5,448)	(199)
13 Total expenses	54,193	58,298	4,105
14 Surplus (Deficit)	2,566	(2,924)	5,490

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

	2015 Actual	Budget YTD	Variance
REVENUES			
1 Annual fees	3,019	2,805	214
2 Professional development and competence	2,158	1,815	343
3 Investment income	9	55	(46)
4 Ontario reports revenue	97	97	-
5 Other	612	309	303
6 Total revenues	5,895	5,081	814
EXPENSES			
7 Professional regulation, tribunals and compliance	1,747	1,859	112
8 Professional development and competence	1,586	1,945	359
9 Corporate services	1,474	1,584	110
10 Convocation, policy and outreach	409	482	73
11 Services to members and public	154	172	18
12 Allocated to Compensation Fund	(421)	(440)	(19)
13 Total expenses	4,949	5,602	653
14 Surplus (Deficit)	946	(521)	1,467

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*

	2015			2014		
	Lawyers	Paralegals	Total	Lawyers	Paralegals	Total
Revenues						
1 Annual fees	6,416	458	6,874	6,636	489	7,125
2 Investment income	(272)	(19)	(291)	1,500	-	1,500
3 Recoveries	109	-	109	82	4	86
4 Total Revenues	6,253	439	6,692	8,218	493	8,711
Expenses						
5 Provision for unpaid grants	3,685	55	3,740	4,799	35	4,834
6 Spot audit	2,728	258	2,986	2,940	244	3,184
7 Share of investigation and discipline	1,454	80	1,534	1,495	53	1,548
8 Administrative	1,070	122	1,192	1,074	78	1,152
9 Salaries and benefits	387	-	387	370	-	370
10 Total Expenses	9,324	515	9,839	10,678	410	11,088
11 (Deficit) Surplus	(3,071)	(76)	(3,147)	(2,460)	83	(2,377)
12 Fund balances, beginning of year	15,618	426	16,044	25,829	419	26,248
13 Fund Balances, end of period	12,547	350	12,897	23,369	502	23,871

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

	2015 Actual	2014 Actual
REVENUES		
1 Insurance premiums and levies	78,593	76,711
2 Investment income	(118)	1,229
3 Total revenues	78,475	77,940
EXPENSES		
4 Claims	(47)	(3)
5 Insurance	80,468	82,571
6 Total expenses	80,421	82,568
7 Deficit	(1,946)	(4,628)
8 Interfund transfers	(1,500)	(1,500)
9 Change in fund balance	(3,446)	(6,128)
10 Fund balance, beginning of year	58,305	65,042
11 Fund balance, end of period	54,859	58,914

FOR INFORMATION

INVESTMENT COMPLIANCE REPORTS

49. Convocation is requested to receive the Compliance Statements for the General Fund, Compensation Fund, and Errors & Omissions Insurance Fund portfolios as at September 30, 2015 for information.

**STATEMENT OF INVESTMENT COMPLIANCE
SHORT TERM
For the nine months ended September 30, 2015**

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
For the nine months ended September 30, 2015**

Investment Parameters	Guidelines	Target	COMPLIANCE		
			COMPENSATION FUND	GENERAL FUND	E & O FUND
1. <u>Asset Mix</u>					
Cash and Short-Term	0 - 15%	0%	Yes	Yes	Yes
Equity investments	5 - 25%	15%	Yes	Yes	Yes
Bonds	60 - 95%	85%	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:					
Government of Canada or Government of Canada guaranteed bond	26-100%	46%	Yes	Yes	Yes
Provincial Government and Provincial Government guaranteed bonds and municipal bonds	0-38%	18%	Yes	Yes	Yes
Corporate Bonds*	0-56%	36%	Yes	Yes	Yes
* Target for BBB bonds within corporate bonds of the fixed income portfolio	8-18%	8%	Yes	Yes	Yes



Fred Grady
Manager of Finance

**The Law Society of Upper Canada
General Fund
Manager: Foyston, Gordon & Payne Inc.
Compliance Report
(Period ending September 30, 2015)**

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
Minimum holding in Federal and Federally Guaranteed Bonds	FTSE TMX Short Term Bond Index Benchmark Weight minus 20%			Y
Provincials, Provincially Guarantees and Municipals	FTSE TMX Short Term Bond Index Benchmark Weight plus or minus 20%			Y
Maximum Total Corporate Issues	FTSE TMX Short Term Bond Index Benchmark Weight plus 20%			Y
Maximum Total Corporate BBB Issues	FTSE TMX Short Term Bond Index Benchmark Weight plus 10%			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.				Y
Bond portfolio duration 1 to 5 years.				Y
The Market value of any one common equity issuer cannot represent more than 10% of the market value of the total portfolio, or that equity's weight in the S&P/TSX Composite Index, whichever is greater.				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 (latest draft version dated April 2015).

*If policy not complied with, comment on specifics.

OCT 16, 2015
Date:


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

**The Law Society of Upper Canada
Compensation Fund
Manager: Foyston, Gordon & Payne Inc.
Compliance Report
(Period ending September 30, 2015)**

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
Each bond portfolio may be invested within the following parameters:				
Minimum holding in Federal and Federally Guaranteed Bonds	FTSE TMX Short Term Bond Index Benchmark Weight minus 20%			Y
Provincials, Provincially Guarantees and Municipals	FTSE TMX Short Term Bond Index Benchmark Weight plus or minus 20%			Y
Maximum Total Corporate Issues	FTSE TMX Short Term Bond Index Benchmark Weight plus 20%			Y
Maximum Total Corporate BBB Issues	FTSE TMX Short Term Bond Index Benchmark Weight plus 10%			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.				Y
Bond portfolio duration 1 to 5 years.				Y
The Market value of any one common equity issuer cannot represent more than 10% of the market value of the total portfolio, or that equity's weight in the S&P/TSX Composite Index, whichever is greater.				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 (latest draft version dated April 2015).

*If policy not complied with, comment on specifics.

Date:

Oct 16, 2015



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



October 2015

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 draft revision dated April 2015), for the quarter ending September 30, 2015.

Yours truly,

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

FOR INFORMATION

OTHER COMMITTEE WORK

50. The Committee received pension plan governance fiduciary training and adopted a revised Statement of Investment Policies and Procedures for the Law Society's pension plan. Under its mandate, the Committee is the administrator of the registered pension plan for the employees of the Society and the exercise of any power relevant to this role is not subject to the approval of Convocation.
51. The committee met with the Law Society's auditors, PwC, on planning the audit for the 2015 financial year including views on audit risks, the nature, extent and timing of audit work, as well as proposed fees and the terms of engagement.
52. As part of its risk management mandate, the Committee received the latest Litigation Report for information.
53. The Committee reviewed material on the implementation of the 2012 Tribunal model.