

PROPOSED RULES

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY (CLLAS)

(Adopted Pursuant to Section 7.09 of the Subscription Agreement)

Interpretation

Except as otherwise provided, all expressions used in these Rules have the meanings ascribed to them in the Subscriber Agreement.

A. NOTICE OF CLAIMS, INTENTION TO CLAIM, OR CIRCUMSTANCES LIKELY TO GIVE RISE TO CLAIMS

A.1. The Executive Committee shall appoint a Claims Committee from among the members of the Advisory Board and establish the rules and procedures to govern the activities and procedures of such Committee.

A.2. Subscriber shall give notice in writing to the Claims Committee as soon as practicable of:

A.2.1 any claim made against a Subscriber or any member of the Subscriber during the applicable Period of Insurance; or

A.2.2 the receipt by the Subscriber or any member of the Subscriber of notice from any person of any intention to make a claim against the Subscriber or any member of the Subscriber; or

A.2.3 any circumstance or circumstances of which the Subscriber shall become aware which may give rise to a claim against the Subscriber or any member of the Subscriber for professional negligence or other event in respect of which the Subscriber would be entitled to seek indemnity from the Reciprocal under a policy of insurance issued by the Reciprocal if the Subscriber intends to claim such indemnity.

A.3. If notice is given to the Claims Committee under Rule A.2.2 or A.2.3 any claim subsequently made (whether before or after the expiry of the Period of Insurance) pursuant to such an intention to claim or arising from circumstances so notified shall be deemed to have been made at the date when such notice was given to the Claims Committee.

B. LEGAL AND OTHER ASSISTANCE

B.1. Without prejudice to any other provision of these Rules or any rules or procedures developed by the Executive Committee to deal with and settle claims and without waiving any of the Reciprocal's rights, the Reciprocal may appoint and employ on behalf of a Subscriber lawyers or other persons for the purpose of dealing with any

matter likely to give rise to a claim by an Insured upon the Reciprocal, including investigating or advising upon any such matter and (in conjunction with or independently of lawyers or other persons appointed or employed by the insurers) taking or defending legal or other proceedings in connection therewith.

- B.2. All lawyers and other persons appointed by the Reciprocal on behalf of a Subscriber, or appointed by a Subscriber with the prior consent of the Reciprocal, shall be deemed to be appointed and employed on the terms that they have been instructed by the Subscriber to give advice and to report to the Reciprocal in connection with the matter without prior reference to the Subscriber and to produce to the Reciprocal without prior reference to the Subscriber any documents or information in their possession or power relating to such matter, all as if such person had been appointed to act and had at all times been acting on behalf of the Reciprocal.

C. ADMISSIONS/SETTLEMENT

- C.1. A Subscriber shall not admit liability to pay or settle a claim covered by any Policy issued by the Reciprocal without the prior approval of the Executive Committee of the Advisory Board.

D. UNDERWRITING PERIOD

D.1 Subscriber Participation

Subscriber participation in each Underwriting Period will be measured by "lawyer-year" exposure units ("Exposure Units") coupled with the "expected loss cost rate" per Exposure Unit applicable to each of the five Fiscal Periods of the Underwriting Period ("Yearly Loss Cost Rate"). The Yearly Loss Cost Rate for any particular Fiscal Period will be determined by the Actuary based on the portion of the risk retained by the Reciprocal for that particular Fiscal Period. Generally it is anticipated that the Yearly Loss Cost Rate will be materially below corresponding premium rates available in the commercial insurance markets. For any particular Fiscal Period the product of the Yearly Loss Cost Rate and the Exposure Units for a Subscriber for that Fiscal Period shall represent the expected loss cost ("Expected Loss Cost") which would be the actuarially determined commuted value of defense and settlement costs in respect of anticipated claims for the Fiscal Period for that particular Subscriber.

D.2 Reciprocal Premium Requirements

Premiums, expressed as a rate per Exposure Unit, shall be determined by the Actuary for each Fiscal Period during the particular Underwriting Period. Such premium rate shall be sufficient to fund the Reciprocal's administration expenses and reinsurance premiums and the portion of the risk being retained by the Reciprocal. During the initial years of the Reciprocal, it is intended that the portion of the premium requirement allocated towards the portion of the risk being retained shall generally be consistent with the then current commercial premium requirements.

E. ACCOUNTING REQUIREMENTS

E.1 Accounting

The Reciprocal shall cause to be maintained detailed accounts setting forth each Subscriber's interest in each Fiscal Period of each Underwriting Period. Premiums and retroassessments will be allocated on an "as paid basis". Investment income earned on accumulated assets will be allocated as hereinafter provided. Administration and reinsurance expenses and actual loss claim costs paid shall be allocated equitably amongst the Subscribers in accordance with each Subscriber's participation in each Fiscal Period of each Underwriting Period. A Subscriber's incurred cost for each Underwriting Period shall be directly proportional to the Subscriber's participation in the Underwriting Period with the excess of premiums and retroassessments paid plus allocated accumulated investment income over its portion of the administration and reinsurance expenses. The excess over the greater of the accumulated value of the Subscriber's actual loss claim costs and the Subscriber's accumulated Expected Loss Costs shall be returned to the Subscriber through retroassessment credits.

E.2 Without limiting the detail and degree of the Reciprocal's overall accounting requirements, the following accounts as they relate to any particular Subscriber shall be maintained for each Subscriber in respect of each Fiscal Period of each Underwriting Period:

- (i) Net Asset Account
- (ii) Exposure Unit Account
- (iii) Expected Loss Cost Account
- (iv) Paid Loss Cost Account
- (v) Reserve Loss Cost Account
- (vi) Outstanding Retroassessment Account
- (vii) Aggregate Paid Loss Cost Account
- (viii) Aggregate Reserve Loss Cost Account

In addition, the following accounts will be maintained for each Underwriting Period to reflect the aggregate actual loss experience of the Reciprocal in respect of each Fiscal Period of the said Underwriting Period:

- (a) Aggregate Paid Loss Account – To record and accumulate all disbursements made on account of defense costs, settlements and judgments in respect of claims reported during the Underwriting Period to the extent the Reciprocal is directly liable for same.
- (b) Aggregate Reserve Loss Cost Account – To record the then aggregate value of the reserve estimates for future defense, settlement and judgment costs in respect of all outstanding claims to the extent the Reciprocal is directly liable for same.

- (c) Exposure Unit Account – To record and accumulate the number of Exposure Units applicable to a Subscriber for each of the five (5) Fiscal periods of the Underwriting Period.
- (d) Expected Loss Cost Account – To record and accumulate the Expected Loss Cost applicable to a Subscriber for each of the five (5) Fiscal Years of the Underwriting Period.
- (e) Paid Loss Cost Account – To record and accumulate the change in the portion of the Aggregate Paid Loss Cost Account applicable to a Subscriber. At any particular time, the portion of the Aggregate Paid Loss Cost Account balance applicable to a Subscriber shall be equal to the balance multiplied by the proportion that the Subscriber's then balance in its Expected Loss Cost Account as it relates to the aggregate of such balances for all Subscribers.
- (f) Reserve Loss Cost Account – To record and accumulate the change in the portion of the Aggregate Reserve Loss Cost Account applicable to a Subscriber to be determined in the same manner as set forth for the Subscriber's Paid Loss Cost Account.
- (g) Net Asset Account – To maintain a record of a Subscriber's interest in the Reciprocal's accumulated assets. As such, for any particular Fiscal Period the account will be debited or credited as follows:
 - (i) Premiums – Premiums applicable to a Subscriber will be credited as paid.
 - (ii) Retroassessments Charged or Credits – Retroassessments applicable to a Subscriber will be debited as paid or, if any credits are applied, will be credited as paid.
 - (iii) Administration and Reinsurance Expenses – The portion of the Reciprocal's administration and reinsurance expenses applicable to a Subscriber will be debited as paid. The Subscriber's portion of expenses for the Fiscal Period shall be equal to the aggregate of such expenses multiplied by the proportion that the Subscriber's Exposure Units for the Fiscal Period bears to the aggregate of such Exposure Units for all Subscribers.
 - (iv) Paid Loss Costs – The net change in a Subscriber's Paid Loss Cost Account for the Fiscal Period shall be debited.
 - (v) Investment Income – The portion of the investment income earned by the Reciprocal on its invested assets during the Fiscal Period and a Subscriber's interest therein shall be credited. Such investment income shall be allocated in an equitable manner on the basis of the Net Asset Account balances of the Subscribers at the beginning and the end of the Fiscal Period.

- (vi) Outstanding Retroassessment Account – As it relates to any particular Subscriber, the balance in this account at any particular time shall be equal to the then commuted value of all outstanding payments in respect of any retroassessment levied against a Subscriber.