

# **REAL ESTATE COMPENSATION FUND CORPORATION**

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## **Annual Report for the Year Ended December 31, 2013**

The Real Estate Compensation Fund Corporation (“RECFC”) and its operations are governed by the *Real Estate Services Act*.

In accordance with the legislation, RECFC established the Real Estate Special Compensation Fund (the “Fund”) for the purpose of providing compensation in accordance with Part 5 of the Act [*Payments from Special Compensation Fund*]. The Act provides for payments from the Fund to be made in one of the following three ways. In each case, a claim on the Fund is filed with the Real Estate Council of British Columbia (the Council)’s Compensation Committee, not with the RECFC.

- (1) Civil Suit - a Court finds that a real estate licensee has engaged in a wrongful taking and thereby caused a “compensable loss,” as defined in the legislation. Any such finding is binding on the Compensation Committee, and the Committee is obliged to issue a Certificate of Compensable Loss, accordingly, in favour of the claimant. Upon receipt of such a Certificate, the RECFC is obliged to make the payment so certified from the Fund.
- (2) Discipline Committee determination – The Council’s Discipline Committee determines that a wrongful taking has been committed. Again, any such finding is binding on the Compensation Committee and, consequently, on the RECFC.
- (3) Compensation Committee hearing - in the absence of a preceding Court or Discipline Committee decision, a member of the public alleging that he or she has sustained a compensable loss is able to apply directly to the Council’s Compensation Committee. In such cases, the Compensation Committee is entitled to conduct a hearing to determine whether a compensable loss has been incurred and issue a Certificate of Compensable Loss. On receipt of such a Certificate, the RECFC is bound to make the payment so certified.

It is important to note that in none of the foregoing circumstances does the RECFC deliberate regarding a payment to a member of the public. It is simply required to make whatever payments might be certified regarding compensable losses determined by the other entities. It should be noted that the legislation does grant the RECFC intervention rights regarding Court and Discipline Committee proceedings, but even if the RECFC exercises those rights, that does not entail any “deliberations” by the RECFC. Rather, the process merely permits the RECFC, as a party to the proceeding, to adduce or challenge whatever evidence it believes appropriate and to make submissions to the Court or Discipline Committee on what it believes the appropriate disposition of the proceeding ought to be. The determination on whether a compensable loss has

occurred and, if so, who is liable for it, either in whole or in part, still rests with either the Council or the courts, rather than the RECFC.

The number of compensation cases arising in any given year is proving to be extremely low in comparison to the number of trust transactions conducted through real estate licensees in the province. The enormous amount of trust funds held by the industry demonstrates the high integrity of the industry as a whole.

In addition, pursuant to an amendment to the Regulation in 2007 allowing the RECFC to make an emergency payment in cases where the Council determines that

- (a) A person has suffered a compensable loss,
- (b) Money is required to
  - (i) Complete a trade in real estate in which the person is involved, or
  - (ii) Prevent further significant compensable loss to the person,
- (c) It would be in the public interest to use money from the Fund to complete the trade or prevent the loss.

The RECFC came into effect January 1<sup>st</sup>, 2005. In its nine years of operation, payments from the Fund have been made for compensable losses in eight cases totalling approximately \$885,000.

Once a payment has been made from the Fund by one of the three mechanisms outlined above, the Act entitles the RECFC to seek recovery of the amount paid from whoever may be liable for the loss, either in whole or in part. The section expressly permits the RECFC to exercise whatever recovery rights the claimant had “as against any other person” in that regard. Most commonly, that recovery effort would be expected to take the form of the RECFC filing a civil suit against one or more of the parties the claimant could have sued. Given how highly variable real estate transactions and the parties involved in them are, determinations by the Directors of the RECFC on precisely how to exercise recovery rights, or how extensively to exercise them, can only be made on a case by case basis, having regard to all the circumstances of the particular case and having regard to what is in the best interests of the RECFC and the Fund. Because Court proceedings, Discipline hearings, or hearings before the Compensation Committee may or may not provide a complete answer to the question of who all the potentially liable parties are, the Directors may consider it in order for the RECFC to conduct further investigations of its own before deciding what recovery steps to take, or which recovery efforts to abandon, in any given case. Factors considered include the degree of apparent liability of a particular party given all the circumstances, the anticipated costs of recovery, and the amount to be recovered. In considering such matters, the RECFC takes appropriate legal advice. If a decision is made to not pursue the RECFC’s recovery rights, then the file is closed.

In order to support the Real Estate Special Compensation Fund, the RECFC may

- (a) Levy assessments on licensees,
- (b) Levy different assessments against different classes of licensees as defined by the RECFC, and

(c) Establish terms and conditions in relation to the payment of assessments.

Every licensee must pay to the RECFC, on or before the time set by the RECFC, any assessment levied by the RECFC. If a licensee has not paid an assessment as required, the licensee's licence is suspended until the licensee pays the full amount due, together with interest on that amount at a rate determined by the RECFC.

The RECFC invests the money in the Real Estate Special Compensation Fund that is not immediately required for disposition, as permitted under the provisions of the *Trustee Act* respecting the investment of trust property by a trustee.

### ***Industry Support of the Real Estate Compensation Fund Corporation***

The RECFC has been fortunate in receiving strong support from the real estate sector. We are particularly grateful for the initial grants made by the Council totalling \$1,000,000 and \$600,000 by the Real Estate Foundation of BC. In addition, through the payment of their annual assessments, real estate licensees have contributed over \$10 million.

### ***Board of Directors***

The Board of Directors of the Real Estate Compensation Fund Corporation consists of three directors appointed by the Council and two directors appointed by the British Columbia Real Estate Association.

The term of office for each director is three years and a director may not serve for more than six consecutive years. However, a director may, after at least one year of not being a director, be reappointed for further terms subject to this same six-year restriction. Currently, the directors are:

- Ann Petrone, Chair (Council Appointee, Kelowna)
- John Finlayson , Vice Chair (Council Appointee, Duncan)
- Philip Jones (Council Appointee, Cranbrook)
- Paul Penner (Association Appointee, Abbotsford)
- Wayne Strandlund (Association Appointee, Victoria)

### ***Activities During 2013***

During the last year, the RECFC has been successful in continuing to build a solid financial reserve as a result of the assessments paid by licensees. Notwithstanding uncertainties in the financial investment markets, income from the Fund's investments remained strong in 2013 while assessments from licensees increased slightly over the prior year.

During the prior year, the Board of Directors commissioned two studies that would impact the operations of the Corporation in future years. In one study a consultant prepared a list of the probable financial implications of raising the current limitations in payouts from the Fund to consumers above the current rate of \$100,000 per claim.

The second study was commissioned to prepare alternative assessment levy regimes that could be implemented when the Special Compensation Fund reaches a self-sustaining level. During the year the Board further assessed what the self-sustaining level should or could be, and how long it would take to reach the desired level

It is anticipated that Board recommendations regarding these two issues will be developed in future years.

In the prior year, RECFC budgeted \$385, 000 for claims and paid out \$300,000. In the current year, RECFC budgeted \$335,000 for claims but the Fund made no payments during 2013.

None of the claims paid out in the prior year were recovered in the current year.

During the year, the Board reviewed the performance of the fund and of the investment advisor in light of the continuing environment of low interest rates and the interest-bearing investments held by the fund. Several alternative investor advisor firms were evaluated with one being invited to present an alternative strategy for managing the Fund going forward. After careful deliberation the Board retained its current investment advisor, and is confident its investment strategy is appropriate for the goals of the Fund going forward.

The RECFC fulfills an important role in providing consumer protection to the citizens of British Columbia. It was an honour to be elected as the Chair of the RECFC in December 2013. I am also confident that with the ongoing support of the industry, the RECFC will continue to provide the public with the protection that it expects and deserves when dealing with members of the real estate profession.

Respectfully submitted,

Ann Petrone  
Chair of the Board  
March 28, 2014