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NAVIGATING A FRAGMENTING WORLD ORDER – GEOPOLITICAL AND GEOECONOMIC RISKS FOR CANADIAN FINANCIAL INSTITUTIONS

Author
Christopher Collins, Cascade Institute

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Executive summary

For decades, Canadian financial institutions operated in an era of deep global economic integration, expanding trade, and deepening economic interdependence. This era has been called the age of "hyperglobalization."[1] The dynamics of this hyperglobalization have shaped the strategic assumptions of governments and corporations around the world, including Canadian financial institutions.

Now, however, the era of hyperglobalization is over. In its place, a more fragmented world order is emerging. This new world order, which has been called "the age of geoeconomics," is defined by great-power rivalry, the routine use of economic tools as instruments of statecraft, and the progressive division of trade, technology, capital, and financial infrastructure into competing great-power blocs.[2] In the investment space, research by the International Monetary Fund (IMF) has shown that these geopolitical and geoeconomic dynamics are increasingly influencing both foreign direct investment and portfolio flows.[3]

This shifting world order has material implications for financial institutions around the world, including those based in Canada. Increasingly, geopolitical and geoeconomic forces will reshape the compliance obligations these firms must satisfy, the markets where they can invest, the infrastructure on which they operate, and the broader economic environment in which their clients and counterparties do business. These changes will require new strategies to identify, assess, and manage geopolitical and geoeconomic risks. To this end, this paper presents a "Triple Exposure" framework to help Canadian financial institutions understand and prepare for the risks arising from geopolitical and geoeconomic fragmentation.

The Triple Exposure framework begins from a recognition of Canada's structural position in the global geopolitical and geoeconomic order. As a trade-dependent middle power sharing the North American continent with the United States (U.S.), Canada is deeply wired into American financial, technology, and regulatory systems. As a result, Canada and Canadian firms, including Canadian financial institutions, are subject to the long reach of U.S. extraterritorial enforcement. But many Canadian financial institutions also hold significant business and investment interests beyond North America, in the very markets that U.S. economic statecraft is increasingly targeting, such as China.

Additionally, Canada's financial sector is highly concentrated. As a result, shocks from geopolitical or geoeconomic fragmentation that impact a major Canadian financial institution have a chance of becoming systemic. This means that an event with a major negative impact on one financial institution could trigger a domino effect that has negative implications for the broader financial sector and the wider economy.[4]

All of this means that Canadian financial institutions are exposed to geopolitical and geoeconomic shocks in three ways: they are exposed to U.S. regulatory and political systems they do not control; they are exposed to contested global markets they may not be able to easily exit; and they are exposed to domestic concentration that amplifies whatever shocks arrive.

Building on this structural analysis, geopolitical and geoeconomic fragmentation risks are organized into three compounding layers of exposure: operational risks, strategic and investment risks, and downstream risks.

1) **Operational risks** arise where geopolitical or geoeconomic risks collide with the day-to-day operations of a financial institution. These operational risks are concentrated in the compliance and regulatory domains. Here, Canadian financial institutions, especially those with international operations or investment portfolios, must navigate conflicting and overlapping sanctions regimes. One major focus is the extraterritorial reach of U.S. enforcement over any institution with any connection to the U.S. (called a “U.S. nexus”) and cases where U.S. enforcement can even occur against organizations that do not have a U.S. nexus.[5] Here, Canadian financial institutions must manage escalating know-your-client and screening complexity under a fast-changing sanctions map, restrictions on cross-border data flows, and export controls reaching into their technology supply chains. Canadian financial institutions’ deep dependence on U.S.-controlled financial market infrastructure amplifies this risk. Finally, state-sponsored cyber and hybrid “grey-zone” threats add a further risk for Canadian financial institutions, as adversary states may target Canadian institutions as proxies for tensions with the United States.

2) **Strategic and investment risks** arise from the global operations and investments of Canadian financial institutions. These are particularly acute for Canadian pension funds and asset managers with global investment portfolios and Canadian financial institutions with significant business units abroad. Investments or businesses in contested markets may face the prospect of impairment, stranding, or forced divestment in the event of geopolitical tensions or ongoing decoupling between rival geopolitical power blocs. For investment holdings, especially in the case of private market assets, unwinding positions may be slow, illiquid, and value destructive. Relatedly, rising resource nationalism, driven by a changing geopolitical climate and increasing demand for critical mineral and energy resources, could threaten Canadian-held mining and energy assets abroad. Finally, in Canada, some financial institutions, particularly public pension plans, face a growing fiduciary tension between the duty to maximize risk-adjusted returns, which may favour contested-market exposure, and political pressure to both de-risk geopolitically and to invest more inside Canada.

3) **Downstream risks** are the second- and third-order effects of geopolitical and geoeconomic fragmentation. These are the least visible, hardest to quantify, and least prepared-for aspects of geopolitical risk. Macroeconomic spillover from global trade conflict is one example. Other examples of these risks are the reverberation of critical minerals weaponization through the Canadian resource sector, domestic Canadian political instability that foreign actors may seek to amplify, and the growing risk that physical conflict will directly damage financial infrastructure. More broadly, the world is seeing a rising baseline of unhedgeable, world-order-level uncertainty and volatility. This rising volatility complicates all long-horizon planning, including that done by Canadian financial institutions.

Importantly, these layers of exposure can both interact with and amplify one another. For Canadian financial institutions, such interaction and amplification means that a geopolitical or geoeconomic trigger, such as a military escalation in the Taiwan Strait, a major secondary-sanctions action against a large Canadian bank, or a sudden tariff shock, can cascade simultaneously through compliance obligations, portfolio valuations, funding markets, and the domestic political environment in a multitude of ways. This makes building effective systems to track and plan for geopolitical and geoeconomic shocks extremely important.

Section 3 translates this analysis into a practical risk management framework comprising six elements designed to be embedded within existing enterprise risk management structures: 1) fragmentation exposure mapping across all three layers; 2) decision protocols and escalation routes for conflicting compliance obligations; 3) market-specific strategies, including exit mechanics, for contested global markets; 4) scenario planning and stress testing, extending to capital and liquidity planning; 5) a dedicated geopolitical intelligence capability; and 6) governance arrangements that assign clear accountability. The framework is deliberately proportionate: what a large, internationally active bank should do is not what a smaller or domestically focused institution should do, and each element should be applied to the risks most material to a given business model.

The geopolitical and geoeconomic shifts occurring around the globe will have far-reaching implications for the world order and the business and investment climate. These shifts will not proceed in a straight line, and the end results cannot be predicted with confidence. But the consequences of these geopolitical and geoeconomic shifts for Canadian financial institutions are already material. Those institutions that invest now in the analytical capabilities, governance structures, and monitoring systems required for integrated geopolitical risk assessment will be significantly better positioned to navigate this changing landscape.

Introduction

For much of the past forty years, Canadian financial institutions have operated within a world order marked by significant stability. This was a period during which expanding global trade, deepening capital-market integration, a broadly rules-based multilateral system, and the assumption that international economic relationships would be governed by commercial logic rather than strategic rivalry were all taken for granted. Some commentators called this “the end of history.”[6]

However, as we have seen over the past few years, history has returned with a vengeance. Once again, geopolitical competition between countries is one of the main organizing forces of international political and economic life. And the instruments of this strategic competition are increasingly economic in nature. These include tariffs, sanctions, export controls, investment restrictions, and the selective denial of access to financial infrastructure itself. Analysts often describe the use of economic policy to pursue geopolitical goals as *geoeconomics.*[*] The term captures a shift in which economic policies that are increasingly driven by political and power dynamics, rather than pure commercial outcomes.[7] As an example of this shift, the summer 2026 “trade war” between Canada and the U.S. saw what the Hon. Kevin Lynch, former Clerk of the Privy Council, called “the unprecedented use of tariffs to coerce acquiescence to otherwise unacceptable economic change.”[8]

One major feature of this change is increasing global economic fragmentation, as the world fractures into distinct geopolitically aligned blocs, such as a U.S.-led bloc or a China-led bloc.[9] This shift away from globalization is driven largely by national security concerns, trade protectionism, and strategic competition between major powers. Emerging from these dynamics, a new global political and economic system characterized by supply chain reshoring, targeted tariffs, and the weaponization of financial systems is taking shape.

As the IMF has warned, this increasing geoeconomic fragmentation is “creating new risks.”[10] Research also shows that this geoeconomic fragmentation is already impacting global investment flows.[11] And, in the years ahead, forecasts suggest that this financial and commercial fragmentation could curb global economic growth by as much as 6.4 percent and increase inflation by up to 6.1 percent.[12]

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[*] Throughout this paper, *geopolitics* refers to the strategic rivalry and competition for power among countries, while *geoeconomics* refers to the use of economic instruments (tariffs, sanctions, export controls, investment restrictions, and control over financial infrastructure) to pursue those strategic geopolitical ends. The two concepts are closely related but distinct: geopolitics describes the overall contest and changing nature of the world system, and geoeconomics describes one increasingly important dynamic through which that contest is now waged. Because the risks examined in this paper arise from the interaction of the two, they are most often referred to together, as "geopolitical and geoeconomic" forces, risks, or fragmentation.

Beyond economic and investment impacts, changing geopolitical dynamics are also increasing the number of wars between countries (as opposed to civil wars within countries). According to a recent study by researchers from the Uppsala Conflict Data Program, an organization that tracks global armed conflict, in 2025, "for the second consecutive year, the number of interstate conflicts doubled.… [T]his is the highest number recorded [since] World War II," and "reflects a trend in which interstate conflicts have become increasingly common since 2016. The first few months of 2026 suggest that this trend is likely to continue."[13]

A related trend is the concurrent rise in "grey-zone" aggression, where hostile states use non-traditional tactics to attack rivals, such as cyberattacks, sabotage of infrastructure targets, or political interference.[14] For example, since 2022, the data shows that Russia has been waging an "unconventional war on Europe, focusing on sabotage of critical infrastructure."[15] As a recent analysis by the insurance broker and risk advisory firm Willis Towers Watson (WTW) noted, grey-zone aggression is "rapidly rising on the corporate risk agenda."[16]

All of this means that geopolitical and geoeconomic concerns are increasingly relevant to private-sector actors, including those in the financial sector. This is reflected in industry surveys and executive commentary. For example, the Bank of England's latest Systemic Risk Survey, published in April 2026, found that "geopolitical risk has reached its highest levels recorded in the survey in all three of the categories: source of risk to the UK financial system, most challenging risks to manage, and most likely risk to materialise."[17] Similarly, a recent report from McKinsey noted, "business leaders can see that the geopolitical environment is only getting more complicated."[18]

Geopolitical and geoeconomic fragmentation is also a subject of increasing interest to financial regulators, given the impact these dynamics can have on the financial system. Most recently, in June 2026, the Australian Prudential Regulation Authority (APRA), Australia's financial services regulator, issued new guidance for banks, insurance companies, and pension funds that laid out "minimum expectations to strengthen industry readiness for geopolitical shocks."[19] These new APRA guidelines include ensuring that "geopolitical risk is reflected in strategy, risk appetite and Board oversight" and that "management has identified and is addressing material gaps … with clear accountabilities and timelines."[20]

This regulatory focus on geopolitics and the financial system is not unique to Australia. According to the European Central Bank, "Banks need to remain resilient and ensure they are well prepared to manage the impact of geopolitical risk on their activities. To safeguard the financial system, European banking supervision is working with banks to develop good practices on how to manage these risks."[21] In Canada, the Office of the Superintendent of Financial Institutions (OSFI) included geopolitical risk in its 2026–2027 Annual Risk Outlook, noting that "geopolitics can act as a driver of risk and can trigger scenarios that have negative outcomes."[22]

Against this backdrop, the purpose of this paper is to give Canadian financial institutions a structured way to think about how geopolitical and geoeconomic fragmentation creates specific risks that institutions can act upon. The paper then provides a framework for identifying, monitoring, and mitigating these risks. We begin by looking at Canada's structural position in the global system, because this position determines which geopolitical and geoeconomic risks may impact Canadian financial institutions, how hard they hit, and through which channels.

Canada's structural geopolitical position: A middle power deeply wired into a superpower

Several defining structural features shape how geopolitical and geoeconomic risks may be transmitted to Canadian financial institutions. Together, these features make Canada unusually exposed to the risks from a fragmenting world order.

1) **Deep integration with U.S. financial systems and regulatory frameworks.** Canada's economy and financial system are deeply intertwined with those of the U.S. Indeed, Canada and the U.S. have the world's most comprehensive trading relationship: the U.S. is Canada's largest trading partner, and Canada is the U.S.'s second-largest trading partner.[23] This deep integration includes Canadian financial institutions, many of which have substantial businesses and investment holdings in the U.S. market.[24] Additionally, Canadian financial institutions transact in U.S. dollars, clear U.S.-dollar payments through U.S. correspondent banks, settle securities through U.S.-domiciled infrastructure, and operate under regulatory regimes that are deliberately harmonized with American standards. Historically, this integration with the U.S. financial system has been a source of strength and growth for Canada. But, in a fragmenting world, it is also a source of exposure, as it places Canadian financial institutions within the jurisdictional reach of U.S. economic statecraft. As a result, American geoeconomic policies that Canada plays no part in making can propagate directly into Canadian financial institutions' operations and portfolios.

   For Canada and Canadian firms, this deep integration with the U.S. remains, on balance, a substantial net benefit. This integration provides Canadian financial institutions access to the world's deepest capital markets, U.S.-dollar liquidity, and correspondent financial infrastructure. All of this has lowered funding costs and underwritten the international expansion of Canadian financial institutions for many years. The argument of this paper is not that this integration is a mistake, but that the depth of these ties converts U.S. economic statecraft into a source of exposure that Canadian institutions must carefully track and manage through planning and strategy.

2) **Importation of volatility from U.S.-centered political, monetary, or economic shocks.** Because of Canada's deep economic integration with the U.S., Canadian financial markets have a historically high correlation with their U.S. counterparts. As a result, Canadian long-term bond yields and equity

valuations are heavily influenced by macroeconomic headlines and monetary policy in the U.S. As the famous saying goes, "when the U.S. sneezes, Canada catches a cold."[25] Indeed, one study from the Bank of Canada looked at data from 2000 to 2016 and found "that U.S. macro news still accounts for a larger share of the daily variations in Canadian bond yields than Canadian macro news does."[26]

Bond yields illustrate this dynamic. Currently, bond yields in Canada are significantly lower than those in the U.S., reflecting sound Canadian monetary policy and "less profligate" fiscal policy.[27] However, policy choices and economic dynamics that impact yields for U.S. Treasuries also impact Canadian yields. For example, in February 2026, Canadian 10-year yields climbed past 3.45% to a one-month high as "a firmer U.S. yield backdrop and tighter cross border duration pricing outweighed softer domestic fundamentals."[28] Here, a shift in expectations about U.S. domestic monetary policy moved Canadian yields against the direction indicated by Canadian fundamentals.

3) **The structural tension between U.S. enforcement and Canadian foreign policy.** As a sovereign state, Canada maintains its own sanctions regimes, its own export-control framework, and its own foreign-policy objectives. These often, but not always, align with those of the U.S. In cases where there is a misalignment, Canadian financial institutions can find themselves subject to U.S. measures that Canadian policy does not endorse. Because of their deep integration with the U.S. financial system, Canadian financial institutions are therefore highly exposed to unilateral U.S. measures that conflict with Canadian public policy or legal frameworks.[29] As an example, Canadian firms doing business in Cuba face competing Canadian and U.S. laws (a dynamic discussed further in Section 2, below). These differing laws pertaining to Cuba can lead to "conflicting compliance expectations arising from the same commercial activity."[30] Unlike institutions in larger jurisdictions, Canadian firms have limited capacity to influence the rules they must follow.

4) **Significant interests in geopolitically contested markets.** While having significant connections to the US, many Canadian financial institutions have also spent years building significant positions in emerging markets, including China, India, Latin America, and the broader Asia-Pacific. According to the latest data from the Bank for International Settlements, as of Q1 2026 Canadian banks had over $3 trillion USD in foreign claims.[31] As a recent report from the Bank of Canada noted, "over the past decade, the six largest Canadian banks held an increasingly greater share of their assets and liabilities abroad, linking the Canadian banking system more closely to economic and financial developments elsewhere in the world."[32] This international exposure is also true for many non-bank

Canadian financial institutions.† For example, several of Canada's largest insurers have major businesses in Asia. And many of Canada's large pension funds also invest widely overseas; as one recent report noted, "from 2003 to 2023, about 30% of all Canadian investment flows in the Asia Pacific were made by pension funds. These investment flows began growing in the early 2010s, peaked in 2021, at C$22B, then declined to around C$8B in 2022 and C$2.6B in 2023."[33] These global positions reflect sound business and investment logic: diversification, exposure to fast-growing global economies, and, in the case of pension funds, the long investment horizons that pension capital can uniquely exploit. But several of these markets, especially China, are now the explicit targets of geoeconomic policies enacted by the U.S. and its allies. Thus, the same positions that diversified Canadian financial institutions' business operations and investment portfolios in an integrating world may concentrate geopolitical risk in a fragmenting one.

5) **Commodity- and critical-minerals-dependent trade.** Canada is a major exporter of energy, metals, and agricultural commodities.[34] Additionally, Canadian firms and investors are significant holders of mining and energy assets around the world. For example, as of 2024, Canadian mining assets held abroad exceeded $240.6 billion.[35] As geopolitical and geoeconomic competition grows, critical minerals and energy resources will increasingly become contested strategic assets. This offers both opportunities and risks for Canada. Allied governments will seek secure, friendly sources of supply for these resources, which is an advantage for Canada.[36] However, this trend also creates exposure, as resource nationalism abroad threatens Canadian-held assets.[37] As global geopolitical and geoeconomic competition increases, commodity markets will continue to become arenas of geopolitical signaling, export restrictions, and price weaponization.[38] All of this will have significant implications for Canadian financial institutions, given their exposure to the sector through their loan, equity, infrastructure portfolios, and the regional economies in which they operate.

6) **Domestic concentration and external exposure.** Canada's financial sector is one of the most concentrated in the world, and it is dominated by a small number of systemically important financial

† There are two important caveats to consider when considering this data from the Bank of Canada. First, the international exposure of Canadian financial institutions is heavily weighted toward the United States. The Bank of Canada paper referenced above estimates that U.S. exposure accounts for between 63 and 72 percent of Canadian banks' foreign assets across the three foreign market segments the paper examines. Consequently, this figure is also evidence of the first structural feature described above: the depth of Canadian financial institutions' integration with the U.S. While a smaller share of the banking balance sheet, exposure to non-U.S. geopolitically contested markets is real and strategically consequential, though for Canadian banks this risk is concentrated in particular business lines and foreign subsidiaries rather than spread evenly across the sector. For Canadian pension funds and insurers, the picture differs: the non-U.S. share of the international exposure of these firms is materially higher, which is one reason the strategic and investment risks discussed in this paper fall unevenly across institution types.

institutions. This includes the "Big Six" banks, which account for approximately 94 percent of Canada's total banking assets.[39] This also includes Canada's major insurers, as well as large Canadian public pension fund managers, including the eight largest, commonly called the "Maple 8." Many of these large financial institutions have significant investment and operational exposure to markets outside of Canada. Thus, when the high degree of domestic concentration is combined with the sector's external exposure, there is a significant chance that a major geopolitical loss event, compliance failure, or market-access disruption at any one major institution could be transmitted rapidly across the financial sector, impacting the broader Canadian economy through credit conditions, pension obligations, and confidence channels.

The central problem: Bound on all sides

The structural features described above all point to the defining strategic issue explored by this paper: while Canadian financial institutions are, on the one hand, deeply wired into U.S. systems and subject to U.S. extraterritorial economic statecraft, these same financial institutions are simultaneously significantly exposed to U.S. policies that are explicitly linking geopolitical concerns to economics and financial markets. As U.S. Treasury Secretary Scott Bessent recently said, in the current era of geopolitical competition, American economic statecraft is increasingly informed by national security considerations.[40] In practice, this means that the U.S. will continue to treat access to its financial system, its technology, and its market as strategic leverage.

At the same time, China's leaders also view economic statecraft as a fundamental aspect of China's strategic competition with the U.S.[41] Chinese economic statecraft includes measures that treat access to China's domestic market, its supply chains, and its critical minerals as geopolitical leverage.[42] And this trend is not limited to the U.S. and China; around the world, governments are increasingly merging economic and geopolitical policies.[43] Canadian financial institutions sit squarely in the middle of this global contest. These Canadian firms are too integrated with the U.S. to stand apart from its policies, too invested in global markets to be indifferent to the walls being built around them, and too concentrated domestically for any major institution's missteps to remain contained.

Section 1 of this paper explores the external forces driving the geopolitical and geoeconomic fragmentation to which Canadian financial institutions are exposed; this is the background context for this exposure. Importantly, these forces are largely exogenous to Canada: Canadian institutions did not create them and cannot reverse them. Despite this, these forces shape the environment in which every Canadian firm must now operate. Section 2 develops a "Triple Exposure" framework, which distinguishes between the operational risks, strategic and investment risks, and downstream risks generated by geopolitical and geoeconomic shocks, and examines how each may compound the others. Section 3 then translates that analysis into a practical framework designed to be embedded within existing enterprise risk management structures for Canadian financial institutions.

1. The drivers of geopolitical and geoeconomic fragmentation

From the standpoint of Canadian financial institutions, the macro forces fragmenting the world order are exogenous: they originate in the strategic choices of great powers and in structural shifts in the international system. However, these forces define the environment in which Canadian institutions, including financial institutions, must operate. And, as the geopolitical world order becomes increasingly contested, the degree to which these forces impact financial institutions is likely to increase. As Carolyn Wilkins, the former Senior Deputy Governor of the Bank of Canada, said in a recent speech, the world currently faces a "broad set of geopolitical risks to the financial system, which are the dragons that we too often leave out of our calculations."[44]

Seven of these geopolitical "dragons" warrant particular attention, as they have the potential to seriously impact Canadian financial institutions:

1. U.S.-China strategic rivalry
2. Sanctions proliferation and extraterritoriality
3. Weaponization of financial infrastructure
4. Trade fragmentation and the rise of industrial policy
5. Strategic competition over critical minerals
6. Increasing U.S. policy discontinuity
7. The return of war and grey-zone aggression

This section will address each of these risks in turn.

U.S.–China strategic rivalry

The strategic rivalry between the U.S. and China is a defining geopolitical dynamic of the current era. The two countries have deep trade linkages, and this trade is crucial for both countries. However, economic and political tensions between the two countries are growing.[45] One expression of these rising tensions is decoupling: the deliberate separation of the two economies across technology, capital flows, and supply chains.[46] While both the U.S. and China have agreed that "strategic stability" in their bilateral relationship is important, it remains unclear what exactly this means and to what extent the two powers will be able to contain their strategic rivalry.[47]

At the centre of this strategic rivalry is the race for supremacy in emerging technologies such as artificial intelligence (AI), quantum computing, and semiconductors.[48] Both the U.S. and China treat leadership in these technologies as a matter of national security, and the race between them for dominance in these areas is accelerating and deepening. As a recent report from JP Morgan noted, "until recently, U.S.-

China AI competition has been framed mainly as a technological race: who has the most compute, or the better model. But increasingly, AI's real-world impacts are turning it into a broader systemic contest, testing each country's governance and economic models."[49]

One result of this technological competition is that the commercial logic that once governed the technology sector has been progressively subordinated to strategic logic. For example, over the past few years, the U.S. has imposed successive rounds of export controls designed to deny China access to advanced semiconductors and the equipment needed to manufacture them, restricted outbound American investment into sensitive Chinese technology sectors, and pressed allies to align their own controls with American policy.[50] At the same time, China has responded with its own export controls on critical minerals and processing technologies, and accelerated its drive for technological self-sufficiency and what the Chinese government calls "indigenous innovation."[51] China has also developed a legal architecture, including the "unreliable entity list," to act as a countermeasure to foreign sanctions on Chinese firms. As the Government of Canada has noted, this "list targets companies and organizations that disrupt business with Chinese entities for non-commercial or politically motivated reasons."[52]

In practice, this strategic rivalry means that companies, investors, and financial institutions operating across both the U.S. and the Chinese blocs face a narrowing corridor of permissible activity. This has significant implications for Canadian financial institutions. As noted above, Canada is inside the American technology and security perimeter. Therefore, Canadian institutions will be compelled, by U.S. regulation, U.S. enforcement pressure, and by the practical demands of operating in U.S. markets, to respect the "fence" the U.S. is building around China.[53] Yet Canadian financial institutions' investment portfolios, trading relationships, and client businesses span both sides of the divide, leading to a dilemma for Canadian financial institutions about where to invest and operate.[54] Going forward, every escalation in the strategic rivalry between the U.S. and China may further narrow the space in which Canadian institutions can hold those positions without conflict.

Sanctions proliferation and extraterritoriality

In recent years, economic sanctions have become an instrument of first resort for Western economic statecraft. As Global Affairs Canada has noted, "Canada and other countries have increasingly turned to imposing autonomous sanctions," and thus, since 2014, sanctions have "become a preferred option and the exponential increase in sanctions packages has had an array of consequences."[55] Showing the scope of this increase, the London Stock Exchange Group (LSEG) Global Sanctions Index has seen a nearly five-fold increase since January 2017. As the LSEG writes, "we identified [sanctions as a] new mega-trend in 2025, as it is becoming increasingly clear that global uncertainty surrounding sanctions is rising."[56]

The full-scale Russian invasion of Ukraine in 2022 drove much of this increase in sanctions, with the U.S., Canada, the EU, and other allied countries imposing sanctions on Russia that were unprecedented in both scale and scope.[57] These sanctions included the freezing of central bank reserves, the exclusion of major Russian banks from the SWIFT financial messaging system, price caps on Russian energy exports, and sweeping restrictions on technology, finance, and individuals.[58] These actions demonstrated both the power of coordinated financial sanctions and the willingness of Western governments to use the financial system itself as a weapon against a geopolitical adversary. Since 2022, the use of sanctions has continued to expand, covering more jurisdictions, more sectors, and more categories of activity.

Equally important is the growth of secondary sanctions and extraterritorial enforcement, with U.S. sanctions law reaching any transaction with a U.S. "nexus." In U.S. sanctions law, a "nexus" means a given transaction has enough connection to the United States to trigger U.S. jurisdiction, including "involvement by a US person, US-originating goods, or a transaction taking place within the US"[59] This wide net includes a U.S.-dollar payment, a U.S. person, U.S.-origin technology, or a U.S. correspondent account.[60] This means that non-U.S. firms with a "US nexus" must comply with U.S. sanctions. However, the U.S. also applies "extraterritorial sanctions" on entities without a traditional U.S. nexus, in a process called "secondary sanctions."[61] These secondary sanctions target non-U.S. entities engaging in foreign activities with sanctioned targets, even if these transactions are outside U.S. jurisdiction and even if this conduct is lawful in the jurisdictions where it occurs. Entities subject to these sanctions risk enormous penalties or, in the extreme case, loss of access to the U.S. financial system itself.

For Canadian financial institutions, this proliferation of sanctions means a permanently elevated compliance burden and a rapidly changing legal and regulatory landscape. As the Government of Canada has written, compliance with sanctions can be "complex and challenging due to the wide range of activities subject to sanctions regulations and the constant updating and additions."[62]

Canadian financial institutions are also exposed to sanction regimes that are part of an economic statecraft strategy developed in Washington, not Ottawa. Therefore, any gap between Canadian and American sanctions policies may become a zone of legal and operational hazard for Canadian financial institutions. This subject will be explored further in Section 2, below.

Weaponization of financial infrastructure

A trend that is related to sanctions, and which is extremely consequential for financial institutions, is the transformation of global financial infrastructure itself into an instrument of economic statecraft. Global financial payment rails, clearing systems, messaging networks, and reserve-currency access have long been treated as "neutral plumbing" in the global economy. However, in recent years, these systems have emerged as "chokepoints" that the countries controlling them can use to gain geopolitical leverage.[63]

One response to this trend has been a fragmentation of the global financial infrastructure. For example, China is steadily expanding its Cross-Border Interbank Payment System (CIPS) as an alternative to

Western systems.[64] As the Government of Canada has written, with the CIPS, China is creating "its own global financial architecture as a tool for strategic rivalry."[65] Additionally, around the world, central banks are experimenting with digital currencies and cross-border settlement platforms that bypass the correspondent-banking system entirely.[66] And bilateral arrangements for trade settlement in local currencies are proliferating among countries seeking insulation from Western sanctions and control.[67]

At present, none of the alternative systems described above rival the U.S. dollar system in scale or efficiency. Thus, the U.S. dollar remains the preferred currency of governments, accounting for the majority of central bank reserves and having a "dominant" role in global private markets.[68] However, as geopolitical and geoeconomic fragmentation continues, the global financial architecture is slowly dividing into two parallel systems, with a growing set of countries maintaining a foot in each. As a recent Goldman Sachs article noted, "we are living through the emergence of a new global economic order, but unlike Bretton Woods—where the world's major powers negotiated shared rules and institutions—the new system is taking shape in a haphazard way, driven by unilateral acts of economic coercion."[69]

Another development, less discussed than U.S.–China economic competition but also directly relevant to Canada, is the movement among allied economies to reduce their own dependence on U.S.-controlled financial infrastructure. In March 2026, the finance ministers of the European Union's six largest economies wrote to the European Commission calling for an EU strategy to promote strategic autonomy and reduce dependencies in retail, wholesale, and business payments.[70] And, in June 2026, the European Parliament backed a plan for a "digital Euro" in a move that was explicitly framed as a means of reducing European reliance on U.S. financial infrastructure and the U.S. dollar.[71] Similarly, the European Payments Initiative, a consortium backed by major European banks, is working to establish an independent European payments system that reduces reliance on non-European networks.[72] And, in the United Kingdom, major banks have begun discussing developing a domestic payment system "amid growing fears over Donald Trump's ability to turn off U.S.-owned payment systems."[73]

This shift has coincided with a deepening of the Canada–EU relationship. In June 2025, the EU–Canada Strategic Partnership of the Future and the accompanying Security and Defence Partnership were signed.[74] Canada became the first non-European participant in the EU's Security Action for Europe program, and in March 2026 the European Parliament adopted a recommendation for enhanced EU–Canada cooperation framed explicitly around threats to Canada's economic stability and sovereignty.[75]

As mentioned above, Canadian financial institutions are deeply embedded in the U.S. dollar-based global financial system.[76] This embeddedness is an asset for as long as the financial system remains unified and Canada remains in good standing within it. However, it becomes a vulnerability if access to the U.S. financial system becomes politically conditional. As Mark Zelmer, former Deputy Superintendent of Financial Institutions at OSFI, has written, "Global political events are propelling us into a new geopolitical era.… Canada and our financial system need to adapt accordingly. Some of our internationally active financial institutions have been operating, at least implicitly, on the assumption that they have two home markets: Canada and the United States. That was perfectly understandable in the past when we could count on a stable economic and political relationship between our two countries and strong oversight by supervisory authorities in both countries. But it may no longer be prudent to count on such relationships going forward."[77]

Furthermore, as the aforementioned payment infrastructure developments in Europe and the U.K. show, the emerging structure of global financial infrastructure is not a simple bipolar split between a U.S. dollar system and a Chinese one. A third financial pole—allied but not American—is taking shape, and Canadian institutions may in time be asked to connect to it, whether by clients, by European counterparties, or by Canadian policy. Participation in such arrangements would itself carry geopolitical risk, as the U.S. may view moves to reduce dependence on its financial infrastructure unfavourably. Therefore, Canadian financial institutions with substantial U.S. operations would need to weigh that exposure carefully before committing to alternate payment infrastructure. For now, this is an area warranting close monitoring rather than early positioning, and it should be added to the set of developments that a corporate geopolitical intelligence function tracks.

Trade fragmentation and the rise of industrial policy

The multilateral, rules-based trading order constructed over the postwar decades is eroding. One consequence of this shift is that tariffs have returned as a mainstream instrument of policy, applied not only between rivals but among allies.[78] In parallel, around the world, countries have embraced industrial policy at a scale not seen in generations, marking a "major shift in economic governance."[79] Examples of industrial policies being implemented around the world include subsidies for technologies such as semiconductors, clean energy, and strategic manufacturing, local-content requirements, tariffs, and "friend-shoring" initiatives that seek to relocate supply chains within trusted political blocs.[80]

One result of this trend is that global trade and investment flows are reorganizing along geopolitical lines. As a recent report from Boston Consulting Group (BCG) has noted, "The world free-trade system began fragmenting well before the US changed its tariff policies in 2025—and appears unlikely to return to its old form. Economic nationalism [has] gained force around the world as governments double down on self-reliance and national security. By our analysis, industrial policy measures motivated by national and economic security have increased more than sixfold since 2022."[81]

For a mid-sized, trade-dependent economy like Canada, which sends most of its exports to the U.S., this global economic reconfiguration represents both an opportunity and a vulnerability. Canada benefits when friend-shoring brings investment from the U.S., Europe, or other allies into the country. Canada suffers when American economic nationalism and trade protectionism do not make exceptions for allies, or when divergent regulatory regimes impose incompatible demands on Canadian producers.

For Canadian financial institutions, this trade fragmentation leads to risks that can be transmitted through clients, credit exposure, and portfolio companies. Globally, tariff shocks, export-control surprises, and changing industrial policies can reshape the competitiveness and creditworthiness of entire sectors (for example, manufacturing, steel and aluminum, agriculture, and energy). Such shifting policies and trade flows can impact financial institution clients or portfolio companies. They can also inject significant and persistent uncertainty into corporate operational and investment planning.

Strategic competition over critical minerals

Underpinning a world order undergoing geopolitical transition is the increasing strategic contest over some of the most important physical inputs of 21st-century economic and military power: critical minerals.

Globally, different countries have their own definitions of what is meant by "critical minerals," but these are commonly defined as raw materials essential for modern economic or national security activity, but whose supply is at risk or is susceptible to disruption.[82] Canada has identified 34 minerals and metals as "critical."[83] The U.S. has a similar list of "60 minerals vital to the U.S. economy and national security that face potential risks from disrupted supply chains."[84] These minerals are required for clean-energy systems, advanced technologies, and national defence, and access to them is viewed by governments as a strategic asset.[85]

The global supply chains for these critical minerals are highly concentrated, with China dominating the processing and refining stages for many of them.[86] Additionally, Chinese firms have "drastically accelerated" their pursuit of critical mineral assets overseas.[87] Geopolitically, China has shown "a willingness to weaponize [its] dominance" in the global critical minerals space for strategic leverage.[88]For example, in October 2025, China's Ministry of Commerce announced new export controls on strategic rare earths, related processing technologies, and lithium battery materials.[89] Underscoring the importance of these minerals, this announcement had a major impact on the global economy and financial markets, and it illustrated how export controls and licensing regimes on strategic minerals are now an established feature of geoeconomic competition.

This dynamic is not limited to the U.S.–China strategic rivalry. Across the developing world, countries that produce critical minerals are increasingly moving to capitalize on the strategic value of these resources. This trend is, in turn, driving a new wave of what has been called "resource nationalism 2.0," as countries renegotiate contracts, raise state participation requirements, restrict foreign ownership, and, in some cases, expropriate assets outright.[90] The result of this trend "is a widening divide between producing countries seeking more value from their resources and consuming nations attempting to secure reliable supplies for energy transition technologies, defence systems and advanced manufacturing."[91]

For Canada and Canadian financial institutions, the global competition for critical minerals in the current geopolitical and geoeconomic environment is a double-edged sword: Canada is exposed as a consumer and positioned as a producer.

As a consumer, Canada is exposed largely through its integration with U.S. and allied manufacturing supply chains: when China restricts exports of rare earths or processing technology, the resulting cost and availability shock reaches Canadian firms through the North American industrial base in which they are embedded. Thus, Canadian firms that require Chinese critical minerals are vulnerable to economic policies that restrict these commodities.

At the same time, Canada is endowed with abundant mineral resources and is a major mining country with deep sectoral expertise. Thus, Canada is well positioned to be a supplier of choice for allied economies seeking non-Chinese sources of critical minerals. The Government of Canada itself notes that "Critical minerals … present a generational economic opportunity for Canada."[92] Similarly, Australia, which like Canada is endowed with abundant mineral wealth, is working to develop these resources to help Western allies diversify their critical minerals supply chains away from China.[93] These two dynamics operate on different time horizons: the consumer's exposure is immediate and largely outside Canadian control, while the producer's opportunity is slow, capital-intensive, and dependent on permitting, processing capacity, and offtake arrangements that may take years to establish. Canadian financial institutions are exposed to both and should not net one against the other in their risk assessments.

Additionally, Canadian mining companies and investors hold significant assets in jurisdictions where resource nationalism is intensifying, and Canadian financial institutions finance, insure, and invest across the sector globally. This is particularly the case in Latin America, where more than half of mining activity involves Canadian-based entities, and where "certain nations … have moved towards greater state control over their natural resources."[94] Therefore, the same geopolitical forces that raise the value of domestic Canadian critical mineral resource endowments also raise the risk attached to Canadian-held resource assets abroad. Section 2 returns to both sides of this exposure.

Increasing U.S. policy discontinuity

Not all fragmentation pressure originates from rivalry between geopolitical blocs. While there is a bipartisan consensus in the U.S. that China is a strategic rival, there have been increasing fragmentation pressures in other areas of U.S. economic and foreign policy as well.[95] This means that, especially over the past decade, American trade, sanctions, and regulatory policy has swung sharply between administrations (and, increasingly, within them). Tariffs have been announced, suspended, and reimposed within weeks; sanctions programs have expanded and then been renegotiated; export-control regimes have been redrawn with little notice. This volatility has led some experts to note that the U.S. now "looks like a troubled emerging market economy."[96] One result is that trade policy uncertainty has reached record highs, as reflected in the Bloomberg Trade Uncertainty Index.[97] Given Canadian financial institutions' deep exposure to the U.S. market, this policy discontinuity is now a recurring trend that must be monitored, stress-tested, and priced like any other geopolitical risk.

The return of war and grey-zone aggression

The final geopolitical "dragon" is the return of inter-state war, and the growth of hostile state activity below the threshold of war. Both are emerging as structural features of the international system.

In 2022, the full-scale Russian invasion of Ukraine ended the post-Cold War assumption that major interstate war in Europe was a thing of the past. Many experts believe this war is "a manifestation of renewed geopolitical rivalry between major world powers."[98] And, in 2025, the world saw armed conflicts between states reach the highest level since World War II.[99] At the same time, conflicts in the Middle East (such as the U.S. – Iran war) and rising military tensions in the Indo-Pacific, particularly around Taiwan, have raised the prospect that armed conflict could directly impact the world's largest economies.[100] This would in turn have significant implications for financial institutions around the world, including in Canada.

For financial institutions, these developments mean that interstate war is no longer a "tail risk" confined to peripheral markets. War is now a scenario that financial institutions must treat as plausible in regions central to global trade, technology supply chains, and capital markets. As one recent report highlighted, "war is moving faster than most bank plans can handle. To survive, banks need to ditch the annual budget and start planning for new shocks every week."[101]

Alongside open conflicts, states around the world are increasingly waging what geopolitical experts call "grey-zone" or "hybrid" aggression. These are hostile acts deliberately calibrated to fall short of armed conflict and are often designed to be deniable. Tactics used for grey-zone aggression include cyber operations, sabotage of critical infrastructure, disinformation campaigns, and economic coercion.[102] As a report from NATO warned, "Grey zone threats to Western states involve attempts to exploit and damage their open societies, economies, and public perceptions of safety, security, and the legitimacy of governance systems and political authority. Critical infrastructure, legal systems, electoral systems, markets, information and public opinion are frequent targets of such attacks."[103] A rising number of grey-zone attacks in Europe has been a particular concern for NATO.[104]

This trend has significant implications for the private sector. As WTW, a leading global risk management consultancy, noted in a recent report, "gray-zone aggression has rapidly evolved into a material threat for businesses; disrupting markets, undermining confidence and creating political leverage… it is shaping geopolitical risk appetite, testing insurance policy wordings and the resilience strategies of every major sector. In this volatile environment, the private sector is no longer a bystander… Executives need to anticipate, adapt and collaborate to strengthen corporate defences and maintain business continuity."[105] One target for grey-zone aggression that is particularly relevant for financial institutions is attacks on undersea cables, as this is the physical infrastructure on which financial markets, payments, and data flows depend. Since early 2024, at least 11 undersea internet and power cables have been damaged in the Baltic region alone.[106]

Canada is not insulated from these dynamics. The Canadian government has warned that state-sponsored "grey-zone" cyber operations against Canada extend beyond espionage, and that "our adversaries very likely consider civilian critical infrastructure to be a legitimate target for cyber sabotage."[107] Subsequently, the Government of Canada warned that cyberattacks and other malicious digital activities targeting Canada's critical infrastructure, explicitly including the financial sector, are "on the rise and are a real and urgent threat."[108] Canadian financial institutions, in other words, are not merely exposed to grey-zone aggression through their clients, counterparties, and portfolio holdings: they themselves are designated critical infrastructure and are therefore potential targets.

For Canadian financial institutions, the trend of increasing interstate war and grey-zone aggression generates risks through three major channels. The first channel is direct: as systemically important operators of critical infrastructure, Canadian banks, insurers, pension funds, and market infrastructure providers face the risk of state-sponsored aggression, such as cyberattacks or sabotage on assets (especially assets in areas exposed to geopolitical conflict). These could be targeted attacks or, in the case of cyberattacks, may be collateral damage from operations elsewhere (the 2017 "NotPetya" cyberattack, which caused global damage after spreading from Ukraine, is an example of this collateral damage risk).[109]

The second channel is transmission, where war and grey-zone incidents may trigger sudden repricing of sovereign risk, commodity and energy shocks, market volatility, and losses on assets in or adjacent to conflict zones. For example, both the 2022 Russian invasion of Ukraine and the 2026 U.S.–Iran war have caused significant volatility that impacted commodity, energy, and financial markets.[110]

The third channel through which these risks can be transmitted, especially in the case of grey-zone aggression, is contractual and legal. Grey-zone incidents sit uneasily within traditional insurance and legal categories: for example, is a deniable act of sabotage "war," "terrorism," or an accident? This ambiguity can create coverage disputes, valuation uncertainty, and litigation risk for financial institutions, especially for insurers and their counterparties. As an example, the NotPetya case mentioned above was subject to significant litigation over war exclusions in cyber insurance policies.[111]

Taken together, this means that Canadian financial institutions must now ask questions that were, until recently, considered unnecessary: what happens to operations, exposures, and client relationships if a major conflict erupts in the Indo-Pacific, or if grey-zone aggression escalates into a sustained campaign against North American infrastructure, or if state-based sabotage targets Canadian financial institution portfolio holdings abroad? Such scenarios have significant implications for how financial institutions identify, assess, and manage risk.

2. The "Triple Exposure" framework: A risk taxonomy for Canadian financial institutions

The drivers of geopolitical and geoeconomic fragmentation described in Section 1 are global in nature. However, the consequences of these shifts for Canadian financial institutions are specific, and they arrive through identifiable channels that can be mapped, monitored, and managed.

To help Canadian financial institutions track these risks, this section organizes the channels of geopolitical risk into three compounding layers of the Triple Exposure framework: *operational risks,* concentrated in the compliance and regulatory domain; *strategic and investment risks,* concentrated in long-horizon global portfolio holdings; and *downstream risks,* the second- and third-order effects of fragmentation that are hardest to see and quantify. As we argued in a Global Risk Institute paper on AI risks, the most dangerous outcomes arise not within any single layer, but from the interactions and intersections among different risks in different layers.[112]

The first layer: Operational risks

For most Canadian financial institutions, operational risk from geopolitical and geoeconomic fragmentation manifests first, and most continuously, as a compliance problem. As the world order fragments, there is a proliferation of rules that overlap, change rapidly, and are frequently contradictory. In the words of one geoeconomic expert, these contradictory rules and policies are the result of "disjointed efforts by governments to retrofit the global economy to suit today's geopolitical realities."[113] Against this backdrop, the burden of reconciling these rules falls on the institutions caught in between. The consequences of this are discussed below.

Conflicting and overlapping sanctions regimes

Currently, Canadian financial institutions must simultaneously comply with Canadian sanctions law, U.S. measures (given Canadian financial institutions' U.S. operations, dollar funding, and correspondent relationships), and the rules of the EU, the U.K., and other jurisdictions in which they operate. At the same time, Canadian financial institutions must navigate the countermeasures of states targeted by Western sanctions, such as China's "unreliable entity" list discussed above. This can make compliance with one geoeconomic regime a violation of another. Even between allied states, such as Canada and the U.S. or the EU, while sanctions regimes may be broadly aligned in intent, they can diverge in detail: in the parties designated, the activities restricted, the licenses available, and the timing of changes.[114] Each divergence creates a compliance gap that must be identified, interpreted, and operationalized.

One key issue is how financial institutions must navigate conflicting obligations when U.S. and Canadian policies diverge. Most of the time, U.S. and Canadian policies point in the same direction. However, in cases where they do not, Canadian financial institutions face conflicting obligations: conduct that Canadian law permits may attract U.S. enforcement risk, while compliance with U.S. expectations may sit in tension with Canadian legal requirements or foreign-policy positions. While Canada's Foreign Extraterritorial Measures Act (FEMA) helps protect Canadians and Canadian businesses from extraterritorial application of foreign laws, such protections will become more complex for organizations to navigate as sanctions and other tools of economic statecraft proliferate globally.[115]

One recent example of an emerging legal and policy divergence is the case of Cuba. In May 2026, the U.S. rolled out a new program of sanctions on Cuba. These new sanctions "more explicitly target activities by non-US persons outside of Cuba."[116] These U.S. sanctions conflict with an existing Canadian law that explicitly prohibits Canadian firms "in respect of any trade or commerce between Canada and Cuba" from complying "with an extraterritorial measure of the United States."[117] In the case of the new U.S. sanctions on Cuba, Canadian firms complying with U.S. law may not be in compliance with Canadian law, and vice versa.[118]

As geoeconomic fragmentation increases, and the scope of economic statecraft widens, new instances of this type of economic policy divergence are increasingly likely. Therefore, Canadian financial institutions need decision frameworks, legal escalation protocols, and governance arrangements for these situations before they arise. In this report, Section 3 sets out several practical measures that financial institutions can adopt to manage these conflicting legal obligations. The goal of such measures is to ensure that when conflict between regulatory regimes arises, the institution responds by design rather than by improvisation.

Regulatory divergence between the U.S. and the rest of the world

Related to the point above, the growing use of sanctions, and differences between the sanction regimes of different countries, is only one part of a broader problem. On a growing range of regulatory questions, such as around AI governance, the U.S. and other major jurisdictions are moving in different directions. As has been previously explored in other research by the Global Risk Institute, this divergence has major implications for Canadian financial institutions, given the significant exposure they have to the U.S. market.[119]

One instructive example is climate policy. The EU's Carbon Border Adjustment Mechanism rewards trading partners that price carbon and decarbonize production.[120] The U.S. does not have a similar mechanism. This means that Canadian steel producers who invest in decarbonization to preserve access to the European market may risk carrying a cost structure that prices them out of the U.S. market; if they do not, they face escalating costs at the European border. Similar divergence dynamics are visible in electric-vehicle policy, AI and data governance, and technology standards. Canadian financial institutions will face these risks through their clients' creditworthiness, through transition-finance commitments whose economics depend on policy alignment, and through their own cross-border regulatory obligations.

Extraterritorial enforcement and U.S.-dollar dependence

As discussed above, the reach of U.S. sanctions enforcement extends to any institution with a connection to the U.S. (called a U.S. "nexus"). Every major Canadian financial institution has many of these nexuses: U.S. subsidiaries and branches, U.S.-dollar clearing through U.S. correspondents, U.S.-person employees and clients, and U.S.-origin technology throughout their operations.

The practical consequence of this dependence Is that U.S. sanctions and export-control policies are a binding constraint on Canadian financial institutions' global activity. These policies are enforceable through penalties that have reached into the billions of dollars for global banks. For example, in 2014, the French bank BNP Paribas paid a settlement of almost $9B USD to the U.S. government after pleading guilty to violating U.S. economic sanctions.[121] Similarly, in 2012, the U.K. bank HSBC admitted to violating U.S. sanctions, and paid $1.3B in penalties to the U.S.[122] Increasingly, as economic statecraft becomes more widespread in an era of rising geopolitical competition, American geoeconomic policy choices may double as compliance obligations for Canadian financial institutions.

KYC, AML, and screening complexity under a fragmenting map

The compliance machinery of financial institutions (know-your-client onboarding, anti-money-laundering monitoring, and sanctions screening) was built for a regulatory world that changed relatively slowly. However, as the world order becomes more complex, regulations are changing more rapidly. And, at the same time, sanctioned individuals and states are developing sophisticated schemes to avoid Western sanctions.[123] Furthermore, screening complexity is compounded by the growth of sectoral and activity-based restrictions, which require institutions to understand not just who their counterparty is but what the underlying transaction is for. The result is escalating compliance costs, a growing dependence on data and technology vendors, and a rising probability of error in either direction. The treatment in this report is deliberately high-level; the operational details, including screening architecture, vendor concentration in sanctions and adverse-media data, false-positive management under rapidly changing designation lists, and the model-risk questions raised by automated screening are substantial. These topics warrant in-depth consideration, and consultation with experts.

The cost of getting compliance wrong, in either direction

Compliance and regulatory failures due to a fragmented global policy environment can be double-sided. As discussed above, under-compliance invites enforcement penalties, criminal exposure, and the reputational damage of being publicly associated with sanctions evasion or illicit finance. However, at the same time, over-compliance with sanctions, including de-risking beyond what sanctions law requires, alienates legitimate clients, abandons profitable business to competitors, invites accusations of unfairness and discrimination, and can itself attract regulatory criticism.[124] Canadian financial institutions must therefore calibrate, not just maximize, their compliance and regulatory postures, and also prepare to defend this calibration to regulators, clients, and the public simultaneously.

Cross-border data flows and data localization

For their operations, Canadian financial institutions depend on data that continuously crosses international borders. However, a growing number of jurisdictions are restricting these cross-border data flows.[125] Data-localization measures are thus both increasing and becoming more restrictive.[126] Restrictions on data flows include data-localization requirements that compel certain data to remain in-country; national security regimes that restrict transfer of sensitive personal and infrastructure data; and divergent privacy frameworks that may impose incompatible conditions on the same data sets. For Canadian financial institutions with operations and investments across the U.S., Europe, and Asia, compliance issues around data are tightening from multiple directions at once, raising costs, fragmenting architectures, and creating new categories of legal exposure. These dynamics will become increasingly relevant as AI, which relies on data sets, grows in importance for the operations of Canadian financial institutions. This subject has been discussed by OSFI and the Financial Consumer Agency of Canada in prior reports.[127]

Technology supply chains under export controls and security review

The technology hardware, software, and services on which Canadian financial institutions increasingly depend are subject to export controls, security reviews, and country-of-origin restrictions. Therefore, financial institutions must verify not only what technology they use but where it originates, who can access it, and whether providing it (or services built on it) to particular clients or jurisdictions triggers control regimes. Procurement, vendor management, and technology functions are therefore all now part of the compliance perimeter.

One area to watch carefully in this space is AI. As AI becomes both a focal point for geopolitical competition and an increasingly important tool for the operations of Canadian financial institutions, geopolitical and geoeconomic regulations around AI use may have significant implications for financial institution operations. One recent event which may have foreshadowed this trend was when the U.S. government ordered the AI firm Anthropic to suspend access to its most powerful models for all foreign nationals, which forced the company to disable the models for all users.[128] While this access was restored by the U.S. government several days later, it shows the risks for organizations that rely on AI models regulated in other countries, a topic we addressed in greater depth in a previous Global Risk Institute paper focused on AI risks for Canadian financial institutions.[129] Beyond AI itself, one major lesson from this incident for Canadian financial institutions is that any critical vendor capability that falls within the reach of U.S. national security powers may be subject to abrupt discontinuity, potentially affecting many institutions simultaneously.

State-sponsored cyber and hybrid threats

Finally, as discussed above, geopolitical tension is increasingly leading to cyberattacks and other "grey-zone" aggression against financial system targets. State-sponsored actors may target financial institutions for espionage, for disruption, for pre-positioning within critical infrastructure, and for retaliation against the policies of governments. Beyond cybercrime, one notable vector here is hostile foreign disinformation directed at a financial institution itself. For example, a coordinated campaign designed to undermine confidence in a bank's solvency, an insurer's ability to pay claims, or a pension fund's asset quality is a plausible instrument of state directed grey-zone aggression. In Australia, the financial regulator APRA now expects regulated entities to integrate disinformation mitigation into risk management and crisis response, and to maintain crisis communication protocols capable of reaching depositors, policyholders, beneficiaries, counterparties, and markets under geopolitical stress conditions.[130] For Canadian financial institutions, foreign sponsored disinformation argues for treating communications capability as part of financial resilience in addition to being part of reputation and brand management. In sum, the rising trend of grey-zone aggression has the potential to impact the operations of Canadian financial institutions, and thus poses significant risks. These risks have been further discussed in OSFI's guideline on Technology and Cyber Risk Management.[131]

Personnel risk: Insider threats and foreign interference

A category of operational risk that receives comparatively little attention in the Canadian discussion, but which financial regulators elsewhere are increasingly focusing upon, is personnel risk. In Australia, APRA defines this as the threats associated with espionage, malicious insiders, and foreign interference, together with the safety and availability of the people an institution employs or engages.[132] Here, the concern is that hostile states seek access to financial institutions and their data via the institutions' employees and contractors. In places where a Canadian institution has operations or outsourced functions in a jurisdiction under the influence of a hostile state, staff there may especially be subject to pressure.

This has direct implications for Canadian financial institutions, particularly given that CSIS has repeatedly identified foreign interference as a primary threat to Canada. Highlighting the nature of these risks, in 2025, an employee of a major Canadian bank was charged by the RCMP after allegedly improperly accessing Prime Minister Mark Carney's personal banking information.[133] To guard against insider risks, financial institutions should adopt three practices. First, critical roles (such as those with privileged system access, sanctions and payments authority, or access to sensitive client and government data) should be identified and subject to enhanced security and integrity measures. Second, institutions should have policies for identifying, managing, escalating, and reporting incidents of attempted interference in governance, management, or operations, which is a different capability from cyber incident response. Third, contingency arrangements should exist for the continuity of staffing and resourcing where critical operations depend on offshore functions or third parties that geopolitical disruption could render unavailable. At a high level, managing personnel risk requires strong collaboration between corporate security, technology, human resources, and operational risk functions.

The second layer: Strategic and investment risks

The second layer of the Triple Exposure framework concerns the long-horizon investment and strategic decisions of Canadian financial institutions. This layer is particularly acute for Canadian pension funds and asset managers whose mandates require global diversification over long time horizons. Ongoing geopolitical and geoeconomic fragmentation may undermine the assumptions on which these long-term investments were originally made.

Emerging-market and China exposure

Canadian institutional investors hold meaningful positions in China and other emerging markets across public equities, fixed income, private equity, real estate, and infrastructure. As one 2024 report noted, "Canadian pension funds' investments in the Asia Pacific have been increasing, in large part to benefit from the region's rapid economic growth."[134] However, as geopolitical fragmentation increases, many of these positions may carry risks qualitatively different from ordinary market risk. These include capital controls; regulatory action that impairs entire sectors without warning; the legal fragility of structures through which foreign investors access restricted industries; delisting and index-exclusion dynamics driven by geopolitical or geoeconomic concerns; and, at the extreme, expropriation or asset freezes should a geopolitical confrontation erupt (for example, a conflict over Taiwan). These risks are political rather than market-driven, and thus can materialize abruptly, simultaneously across asset classes, and may occur at moments of elevated geopolitical tension when exits may be difficult. One consequence of this dynamic is that, over the past year, some Canadian pension funds have been pulling back from China and other emerging markets.[135]

India and the Asia-Pacific

As investment exposure to China has become more geopolitically fraught, some Canadian investors have increasingly turned to India and other Asia-Pacific markets in search of growth. Reflecting this trend, India's share of Canadian investment in Asia has risen from 7 percent to 23 percent over the past 15 years.[136]

The strategic logic driving this shift is sound. However, this also risks replacing one concentrated geopolitical exposure with another. India's relationship with Canada has experienced significant diplomatic turbulence in recent years.[137] Recently, relations between the two countries have rebounded following "a major reset," and both governments are committed to rebuilding trust and pursuing long-term economic and security partnerships.[138] Nevertheless, prior tensions show that bilateral relations can deteriorate quickly and unpredictably, especially in the current era of increasing geopolitical and geoeconomic volatility. This volatility can have consequences for market access, regulatory treatment, and the operating environment for foreign investors. Furthermore, the Asia-Pacific region sits on the front line of U.S.–China rivalry; the same regional dynamism that attracts capital is inseparable from the region's centrality to a potential great-power conflict.

Resource nationalism and Canadian-held assets abroad

As discussed above, Canadian companies and investors hold mining, energy, and infrastructure assets across jurisdictions where resource nationalism is intensifying. Here, contract renegotiation, escalating royalty and ownership demands, export restrictions, and outright expropriation are all risks. For Canadian financial institutions that own these assets directly, finance their operators, or hold the equity and debt of the companies involved, resource nationalism is a growing area of geopolitical risk exposure.

Forced divestment and the illiquidity of exit

A significant aspect of geopolitical and geoeconomic driven investment risk is the dynamics of exiting investments. Canadian financial institutions that have positions in contested markets may need to unwind these positions due to foreign or domestic policy demands, which could occur via formal divestment requirements, sanctions designations, index exclusions, or political pressure. Particularly in the case of private assets, exiting these positions may be complex, occur at a time when valuations are not favourable and repatriating capital could prove difficult. Indeed, partly in response to these concerns, several major Canadian pension funds have already paused or reduced new investment in China.[139] Element 3 of Section 3 sets out how an institution can develop an explicit posture for each contested market, including the mechanics of exit, before pressure to act arrives.[140]

Closely related to the difficulty of exiting a position is the difficulty of moving money. Geopolitical events can restrict an institution's ability to access and repatriate capital held in a foreign jurisdiction, whether through formal capital controls, host-country regulatory action, sanctions, or the closure of the markets and payment channels through which funds would ordinarily move. The result is capital trapping: assets that remain on the balance sheet and continue to attract capital charges, but which cannot be deployed, distributed to the parent institution, or used to meet obligations elsewhere in the group. For Canadian banks and insurers with substantial foreign subsidiaries, and for pension funds with unlisted holdings in contested jurisdictions, this is a different problem from impairment: the asset may retain its value yet be unavailable.

In Australia, APRA now expects capital and liquidity planning, and investment stress testing, to routinely consider severe but plausible geopolitical scenarios., APRA identifies market closure, sanctions, capital trapping, and funding stress as the specific cases to model.[141] This is a useful benchmark for Canadian institutions, as it helps to move geopolitical risk out of the strategic planning cycle and into the capital and liquidity machinery, where it is quantified and modelled.

The fiduciary tension

Underlying these dynamics is the tension between fiduciary duty and geopolitical pressures, which is especially relevant for Canadian pension funds that have a fiduciary obligation to maximize risk-adjusted returns for beneficiaries. This obligation has historically justified exposure to contested global markets that offer diversification and growth. At the same time, however, as geopolitical tension increases, government stakeholders and the public may increasingly frame investments in geopolitically contested markets as matters of national security and values rather than portfolio construction. For example, in Canada, some Members of Parliament have questioned the relationship between Canadian pension funds and China.[142]

As geopolitical tensions increase, boards face the prospect of being criticized in both directions: for sacrificing returns if they de-risk, and for funding strategic rivals if they do not. This tension cannot be eliminated, but it can be managed through explicit board-level positions, documented decision frameworks, and scenario analysis that makes the trade-offs visible in advance.

Peer jurisdictions have begun to explore this issue, and this offers the boards of Canadian financial services firms a usable template. For example, in June 2026, the Australian financial services regulator, APRA, extended its geopolitical risk expectations to Australian superannuation trustees alongside banks and insurers. APRA's chair pointed specifically to the sector's large overseas holdings as a source of vulnerability.[143] Note that APRA treated geopolitical preparedness as a matter of governance rather than of investment preference: trustees are expected to demonstrate that geopolitical risk is reflected in strategy, risk appetite, and board oversight, and to close identified gaps against named accountabilities and timelines. Framed in this manner, geopolitical analysis is an important part of fiduciary duty, as an unexamined geopolitical exposure is risk to beneficiaries. Globally, comparable reasoning is emerging among some sovereign wealth funds, which have begun reassessing conventional portfolio construction on the grounds that fragmentation has altered the correlation and liquidity assumptions on which diversification depends.[144]

For the boards of Canadian financial institutions, this shows that the best approach is to document, in advance, the geopolitical analysis that has been done: the size and liquidity profile of contested-market positions; the scenarios under which those positions would be impaired or frozen; the estimated cost and time of exit under adverse conditions; the return that is being given up, or the risk that is being accepted, by holding or reducing them; and the conditions that would trigger a change in posture. A board that can produce this record can defend its decision in either direction, to beneficiaries and to legislators.

The third layer: Downstream risks

The second- and third-order effects of geopolitical and geoeconomic fragmentation impact Canadian financial institutions indirectly. These downstream risks include geopolitical and geoeconomic shocks that affect the economy, the political system, and the overall world order. These are the least visible risks, the hardest to quantify, and the ones for which many Canadian financial institutions may be least prepared. Several of the most consequential of these downstream risks are discussed further below.

Macroeconomic spillover

As noted above, trade conflict, industrial policy, and tariff escalations are features of the current age of geopolitical and geoeconomic fragmentation. These dynamics can transmit risks to Canadian financial institutions even if those institutions do not have a direct connection to any exposed position. For example, tariffs can fuel inflation; inflation shapes monetary policy; and monetary policy impacts markets and economic growth. All of this can impact funding costs and weigh on business investment, employment, and household balance sheets in ways that affect Canadian financial institutions, even if those financial institutions are not directly impacted by the tariffs. Similarly, a sustained trade conflict involving Canada's major trading relationships would erode credit quality across commercial, corporate, and consumer sectors, well beyond the specific industries that are directly targeted.

Erosion of sovereignty and strategic autonomy

Canada's dependence on U.S.-controlled financial, technology, and data infrastructure has been documented throughout this paper. At a macro level, this is a question of national strategic autonomy.[145] A country whose payment clearing and settlement infrastructure, cloud computing capabilities, and data architecture are controlled abroad has ceded a measure of independence.[146] Recognition of this fact is driving ongoing policy discussions in Canada about the need to build sovereign Canadian capabilities in areas such as cloud computing and AI.[147]

This dependency on foreign-controlled technological and financial infrastructure extends to Canadian financial institutions. The core dependencies of Canadian financial institutions can be grouped into four main categories. These are: 1) U.S.-dollar clearing and the related correspondent relationships; 2) securities settlement through U.S.-domiciled infrastructure; 3) hyperscale cloud and the data and model services built on it, which are overwhelmingly U.S.-owned and subject to U.S. law; and 4) the card networks and messaging systems through which retail payments and cross-border instructions move. Each of these categories is subject to policy risk from political decisions made outside Canada.

The Canadian government's policy response to this dependency on foreign infrastructure is also becoming a source of risk for financial institutions. Future regulations around use of sovereign cloud infrastructure, data-localization mandates, procurement preferences for domestic providers, and expectations around operational autonomy could impose real costs: duplicated infrastructure, migration risk, constrained vendor choice, and in some cases, materially weaker capabilities than incumbent U.S. providers offer today.

Resource and supply-chain second-order effects

The global weaponization of critical minerals and the intensification of resource nationalism discussed above have the potential to reverberate through the Canadian economy in ways that extend beyond directly held assets. For example, Canadian firms will face volatile input costs, shifting export-market access, and investment uncertainty. Additionally, regional Canadian economies built around mining and energy will need to absorb the swings in the prices of these resources, caused by geopolitical events. For example, the oil price spike driven by the U.S.–Iran war had a positive impact on Alberta's fiscal position.[148] Asset values tied to natural resource activity, from corporate credit to commercial real estate in resource towns, are now being affected by geopolitical events around the world. Financial institutions hold all of this on their balance sheets.

Domestic political and social effects

Geopolitical and geoeconomic fragmentation abroad fuels fragmentation at home. Trade conflict and economic dislocation strengthen protectionism and populism, which in turn produce political instability. In Canada, this dynamic has a specific and serious expression: regional separatism. While separatist sentiment in some provinces is a longstanding feature of Canadian politics, in a fragmenting world, these movements have become targets for foreign interference. Both the Communications Security Establishment (CSE) and the Canadian Security Intelligence Service (CSIS) have issued warnings regarding hostile foreign state actors actively attempting to influence provincial separatist movements and potential sovereignty referendums.[149]

This is a real concern: hostile states have shown, in Canada and elsewhere, both the capability and the intent to amplify domestic divisions through disinformation and influence operations. A foreign-amplified Canadian national unity crisis would be a financial event as much as a political one, with implications for federal and provincial funding costs, the Canadian dollar, institutional deposit flows, and the long-term planning assumptions of every Canadian financial institution.

Three features of this risk deserve particular attention by Canadian financial institutions.

First, a major transmission channel runs from this risk through credit markets. A sovereignty referendum in a major province would reprice provincial debt, widen federal–provincial spreads, and pressure the

Canadian dollar well before any political constitutional question was resolved. Institutions holding provincial paper, lending into the affected regional economy, or funding themselves against Canadian sovereign benchmarks would be impacted, and this could come through instruments not normally classified as carrying geopolitical risk.

The second issue is that the political scenario for which financial institutions should plan will include sustained uncertainty, rather than just separation. If a separation question were to linger, the financial damage could accumulate over a period of years, and not at a moment of resolution that may never arrive. In Quebec, the lingering impact of separatism, which some have called a "neverendum," caused years of political uncertainty that impacted business investment, head-office location decisions, capital flows, and provincial borrowing costs.[150]

The third feature of this dynamic that requires attention is that of foreign amplification. For separatist movements in Canada, the underlying dynamics of regional grievances are domestic in origin and longstanding in duration. What is new is the capacity of hostile foreign actors to identify, fund, and amplify those grievances at scale.[151] As CSIS has warned, "the scale, speed, range, and impact of foreign interference activities in Canada has grown as a result of globalization, technology, and the current geopolitical climate."[152] This dynamic raises the probability that a period of acute constitutional uncertainty is accelerated or manufactured rather than arising organically, which in turn compresses the warning time available to institutions. This also creates a distinct reputational exposure: an institution seen to have been slow to recognize foreign-influenced instability, or whose own public communications are taken up and repurposed within a foreign influence operation, faces reputational risks. For long-horizon planning, the implication here is that national-unity risk belongs in the standing scenario set, alongside trade and conflict scenarios, owned by the risk function. It should not be treated solely as a political question managed by government relations alone.

World-order-level uncertainty

Beneath specific scenarios lies a more diffuse downstream risk: the erosion of the rules-based multilateral system raises the baseline level of uncertainty in everything. This means that globally, treaties are less binding, formerly reliable institutions are less effective, and precedent is less useful for predicting future outcomes. For Canadian financial institutions with global business operations and investment portfolios, this is a direct analytical problem: the further out the time horizon, the more planning depends on assumptions about the stability of the international order, and those assumptions are weakening. Some degree of global geopolitical risk is transferable (e.g., through political-risk insurance or FX hedges), though capacity is thin and the language in some insurance agreements may be contested (see the NotPetya litigation case cited earlier in this paper). Furthermore, despite these tools, much of the uncertainty about the state of the world order is unhedgeable. For Canadian financial institutions, this uncertainty must be acknowledged and bounded through scenario analysis as an input to planning; as a recent article by BCG noted, "scenario planning is a key tool to combat [geopolitical] uncertainty."[153]

Reputational risk

As the world increasingly splits into rival geopolitical blocs, it will become more difficult for firms to maintain neutrality. This means that financial institutions publicly connected to contested markets, sanctioned-adjacent counterparties, or politically sensitive sectors may face growing scrutiny from the media, civil society, legislators, and their own clients and employees. For example, in Canada, several major financial institutions have already faced critical media attention for investments in U.S. contractors working with Immigration and Customs Enforcement.[154] And, as discussed above, Canadian financial institutions investing in China have already faced scrutiny from some Members of Parliament. Similarly, one former senior U.S. official recently said that Western firms investing in China are "underwriting our own demise."[155] Increasingly, both positions taken and positions conspicuously not taken are read as statements. This means that reputational risk management in a fragmenting world requires anticipating how previously ordinary commercial and investment relationships may look under tomorrow's alignments.

Physical conflict and financial infrastructure

As noted above, the risk of an outright war touching the financial system directly can no longer be treated as implausible. Recent conflicts have demonstrated that data centres, undersea cables, energy systems, and other infrastructure on which finance depends are now military and sabotage targets. In Europe, countries have documented sustained campaigns of sabotage against critical infrastructure.[156] And, as mentioned previously in this report, this type of grey-zone aggression is also recognized as a risk in Canada. In the future, a major war, such as a conflict over Taiwan, could combine physical destruction of infrastructure, sweeping sanctions, market dislocation, and supply-chain rupture simultaneously. Canadian financial institutions need not predict such a conflict to prepare for the financial-system conditions it would create.

Climate-related geopolitical shocks

Finally, the climate transition interacts with geopolitical and geoeconomic fragmentation in ways that deserve a brief note. Climate change is well-documented as a driver of geopolitical instability, and it impacts geopolitics through migration, resource stress, and disaster response.[157] At the same time, the global energy transition has redrawn the map of strategic resources, elevating critical minerals, clean-energy supply chains, and decarbonization technologies into national security concerns.[158] As discussed above, climate policy divergence has split various global regulatory regimes. Within Canadian financial institutions, different teams typically manage climate risk and geopolitical risk under different frameworks; their intersection is correspondingly under-examined. This paper does no more than flag that intersection. It is a substantial topic in its own right and is not developed further here.

Risk interaction and amplification

Some of the most dangerous geopolitical outcomes for Canadian financial institutions could occur when dynamics intersect and compound across different layers of the Triple Exposure framework. In one plausible scenario, a single geopolitical trigger could propagate through all three layers of exposure at once. For example, consider a severe escalation in the Taiwan Strait:

- At the operational layer, sweeping allied sanctions on China would transform the compliance environment overnight, multiplying screening obligations, freezing categories of transactions, and forcing rapid legal interpretation across conflicting regimes. It could also lead to cyberattacks that directly or indirectly affect Canadian financial institutions, their clients, and their portfolio companies.

- At the strategic and investment layer, Chinese and broader emerging-market positions held by Canadian financial institutions would face immediate impairment, capital controls, and the prospect of forced divestment into a market with limited buyers. At the same time, a global semiconductor supply disruption would impact technology valuations globally. Some regional assets held by Canadian financial institutions might be damaged in the fighting.

- At the downstream layer, global markets would reprice violently. This would lead to a flight to the U.S. dollar, surging volatility in rates and currencies, commodity price spikes, and a shock to global supply of certain commodities (e.g., semi-conductors produced in Taiwan, Chinese critical minerals, etc.). All of this could impact Canadian financial and credit markets. At the same time, the Canadian political environment could turn sharply against any institution perceived as slow to comply or compromised by its exposures to China.

In this example, each layer would amplify the others in ways that may lead to an impact on financial institutions that is greater than the sum of the constituent parts. For example, increased compliance demands would constrain the speed of portfolio response, portfolio losses would attract political scrutiny, and political pressure would harden compliance expectations further. Similar cascading dynamics can be identified and mapped for other potential geopolitical trigger events. The lesson here for risk management is that geopolitical and geoeconomic fragmentation risks must be assessed and tracked not only individually but jointly, with explicit attention to the interactions that conventional, siloed risk categories frequently miss. Element 4 of Section 3 sets out a standing scenario set for doing this, together with the capital and liquidity planning that should accompany it.

3. From analysis to practice: A framework for financial institutions

The preceding sections have mapped the drivers of geopolitical and geoeconomic fragmentation and the three layers through which these dynamics can affect Canadian financial institutions. This section translates that analysis into a practical framework that financial institutions can use to identify, monitor, and manage their exposure to these risks. This framework includes six elements designed to be embedded within existing enterprise risk management structures. These are:

1. Fragmentation exposure mapping
2. Navigating conflicting compliance and regulatory obligations
3. Market-specific strategies for contested global markets
4. Scenario planning and stress testing
5. Geopolitical intelligence capability
6. Governance and integration

As a starting point, institutions may find it useful to assess the current maturity of their capabilities in each of these six areas to identify gaps. For example, have exposure mapping and scenario planning already been done? How mature is the organization's ability to aggregate and understand geopolitical intelligence and track indicators? How are global sanctions tracked? This mapping of the current state could provide a helpful baseline. In accordance with best practice for geopolitical analysis, the guiding philosophy for this approach is probabilistic and scenario-based. In a fragmenting world, forecasts of geopolitical outcomes are unreliable. But exposures can be mapped, scenarios can be stress-tested, and early signals can be monitored to ensure organizational preparedness. As McKinsey has written, the goal here "is not about predicting the future but setting strategy and building capabilities to navigate multiple potential futures."[159]

When considering how to build these elements, two points from the Australian financial regulator APRA's June 2026 guidance on managing geopolitical risks are helpful to keep in mind. The first is that geopolitical risk is best treated as an amplifier of existing material risks rather than as a new risk category sitting alongside them. One of APRA's main points is that "while many entities are alert to geopolitical risk, there are differing levels of maturity in how this awareness is translated into risk management practices and crisis preparedness…. Entities give limited consideration to geopolitical risk as an amplifier of existing material risks."[160] In other words, while financial institutions are aware of geopolitical risk, this awareness has not always been translated into practice. Adapting APRA's finding to the recommendations of this paper, we recommend that each element of the geopolitical risk management framework should change something an institution already does (e.g., credit decisions, vendor assessments, capital stress tests, etc.), rather than generating a separate geopolitical work stream that runs alongside the risk function.

The second is proportionality. In its guidelines, APRA was explicit that it does not expect all entities to respond in the same way, and that smaller and less complex institutions should focus on the risks most material to their operations, counterparties, service providers, and customers. The same applies in Canada. The elements below are written for institutions with material international exposure; a domestically focused Canadian institution will find that some elements barely apply, while others, particularly third-party dependency and personnel risk, apply in full.

Finally, APRA's guidance may be helpful for Canadian financial services institutions, as it shows a plausible direction of travel for Canadian supervision. APRA has said it will build targeted readiness assessments into supervisory plans for larger entities with heightened exposure, focusing on crisis preparedness, personnel risk, and political risk; that it will confirm that accountability for geopolitical risk is assigned to named, accountable persons; that boards should reflect geopolitical risk in their annual risk management declaration; and that it will take supervisory action where it finds heightened exposure, weak governance, or inadequate crisis preparedness. Canadian institutions that build these capabilities now will be well-positioned, should a similar set of guidelines be passed in Canada.

Element 1: Fragmentation exposure mapping

The foundation of the framework is a systematic mapping of an institution's exposure across all three layers of the Triple Exposure framework. This should be conducted at sufficient granularity to support decision making and refreshed regularly as geopolitical and geoeconomic conditions change. Areas for inclusion in this assessment could include:

- **Operational exposures:** An inventory of dependencies on U.S.-controlled and other foreign-controlled infrastructure (payments, clearing, settlement, messaging, cloud, and critical software), of cross-border data flows and their legal bases, of technology supply chains subject to export controls, and of business activities sensitive to sanctions and regulatory divergence. This inventory should identify single points of failure and assess, for each critical dependency, the realistic consequences of policy-driven curtailment rather than only technical outages.

- **Strategic and investment exposure:** A disaggregation of portfolio positions by jurisdiction, asset class, liquidity, and geopolitical sensitivity. Here, it may be helpful to highlight exposure to contested markets, to resource-nationalism-prone jurisdictions, to sectors targeted by export controls and industrial policy, and to assets from whose exit would be slow or value-destructive under pressure (for example, it may be more difficult to exit a private market holding than a public market holding in a contested market). This mapping should quantify not only the size of contested positions, but the time and cost of unwinding them under adverse conditions.

- **Downstream exposure:** An assessment of the transmission channels through which macroeconomic spillover, resource-sector second-order effects, domestic political instability, and reputational risks would reach a financial institution's business lines, including its loan books, portfolio holdings, operations, and other activities. This should include exposures (client sectors, regional concentrations, counterparty networks) that some conventional risk categories do not label as geopolitical.

Element 2: Navigating conflicting compliance and regulatory obligations

Because conflicting legal and compliance obligations are a structural feature of Canada's position as a middle power, Canadian financial institutions should prepare accordingly. Examples of practical steps that can be taken here include:

- Maintain a current map of the sanctions and regulatory regimes applicable to each financial institution's business line, with divergences between Canadian, U.S., EU, and U.K. requirements explicitly flagged.

- Establish legal triage and escalation protocols that define, in advance, who decides and on what basis when obligations conflict.

- Structure entities, booking models, and transaction flows, where feasible, to manage the jurisdictional nexus of sensitive activities.

- Engage early with OSFI, the Department of Finance, and Global Affairs Canada when divergence creates genuine dilemmas, such as in the case of Cuba noted above.

- Document the reasoning behind calibration decisions so that the institution can defend its posture to regulators in multiple jurisdictions and to the public.

Here, the objective is not to eliminate conflict between different sanctions regimes, which is impossible, but to ensure that when this conflict arises, the institution responds by design rather than improvisation.

Element 3: Market-specific strategies for contested global markets

Canadian financial institutions with positions in contested markets should develop explicit strategies for each such market. One key component of this should be defining, at the board level, the institution's posture toward each contested market under a range of geopolitical scenarios. This should include the conditions under which new investments would pause and when to reduce or exit existing positions. This exercise could also include developing strategies to exit contested-market investments, with specific attention to liquidity, legal domicile, currency repatriation, and partner risk. Finally, these strategies could identify which markets and structures capture growth exposure with lower levels of geopolitical risk. These strategies can help address the fiduciary tension mentioned above, as they would create documented board positions on how the duty to beneficiaries will be weighed against geopolitical pressure, and these policies would have been developed before a crisis forces the question.

Element 4: Scenario planning and stress testing

As mentioned above, geopolitical shocks reward structured scenario analysis. Therefore, Canadian financial institutions should define a standing set of geopolitical and geoeconomic scenarios and stress-test exposures against these scenarios at least annually, refreshing the scenario set as needed. This scenario set could include:

- A major trade-conflict escalation involving Canada's principal trading relationships, with sustained tariffs, retaliation, and the associated inflation, currency, and credit-quality consequences.

- A Taiwan Strait conflict or blockade, combining sweeping sanctions on China, semiconductor supply rupture, global market dislocation, and forced unwinding of contested-market positions. This scenario should be modelled in severity tiers, such as a quarantine, a blockade, and a full invasion, as the financial-system consequences of each tier would materially differ.

- A technology-restriction shock, in which export controls or security reviews abruptly curtail access to critical technology, data flows, or vendors on which the institution depends.

- Accelerated financial-system fragmentation, in which sanctions escalation, payments-system division, or correspondent de-risking materially alter the institution's access to counterparties, currencies, or markets.

- A domestic political stress scenario, including a foreign-amplified unity crisis, with consequences for funding costs, deposit behaviour, and the provincial-federal fiscal and policy landscape.

- A U.S. policy-discontinuity scenario, in which abrupt shifts in American trade, sanctions, or regulatory policy rapidly alter compliance obligations and market access.

Each scenario exercise should specify the triggering conditions, trace transmission through all three layers of the Triple Exposure framework, identify the cross-layer interactions and feedback loops activated, and conclude with concrete implications. The results of these scenarios should inform enterprise and business unit strategic and investment planning.

In its recent geopolitical guidance mentioned above, the Australian financial regulator APRA noted, "crisis preparedness exercises are not always strong enough to give boards and management confidence that the entity could withstand and respond effectively to a severe geopolitical shock."[161] Developing these scenarios can help address this risk; for example, the scenarios can be used to develop "playbooks" that can support rapid response, should a geopolitical shock occur. These exercises can be conducted as standalone activities or integrated into the scenario testing for operational risk and resilience discussed in OSFI Guideline E-21.[162]

Scenario work should also extend beyond strategic planning into capital and liquidity management. As mentioned above, in Australia, APRA now expects capital and liquidity planning, together with investment stress testing, to consider severe but plausible geopolitical scenarios routinely, and names four in particular: market closure, sanctions, capital trapping, and funding stress, including difficulty accessing and repatriating capital to the home jurisdiction. Contingent funding plans are generally constructed around idiosyncratic or market-wide liquidity stress; they are less often tested against geopolitical scenarios. Adding one such case to the existing stress-testing suite may be a helpful exercise.

Element 5: Geopolitical intelligence and indicator tracking

The global geopolitical landscape now moves too quickly for ad hoc reliance on news coverage and periodic consultant reports. Therefore, large financial institutions should build, or deliberately source, a dedicated geopolitical intelligence capability responsible for continuously monitoring the regulatory and geopolitical landscape, maintaining the early-warning indicators relevant to the institution's mapped exposures, advising leadership on these issues, translating developments into specific implications for business lines and portfolios, and supporting the development of geopolitical scenario planning.

Additionally, this group can also lead periodic war-gaming and red-team exercises, which can test how well this intelligence translates into organizational decisions under pressure. Indeed, research from the World Economic Forum and other organizations has shown that, globally, "leading companies are institutionalizing geopolitics within their organizations and building the capability to sense, plan and act amid uncertainty."[163] This capability need not be large to be valuable; what matters is that it is sustained, accountable, and connected to enterprise decision making (especially around strategy, risk management, and compliance).

A trigger framework is helpful to operationalize this geopolitical intelligence and indicator tracking capability. This trigger framework should specify in advance what geopolitical event (i.e. the trigger) causes what decision, and who is authorized to take it. As APRA has laid out in Australia, the “trigger framework must be relevant to the operating environment and risk profile… and include a range of early warning indicators to support the effective activation and implementation of the recovery and exit plan…. Governance arrangements for the monitoring of triggers and timely activation of the recovery and exit plan or specific actions [must be developed].”[164]

Indicators used in this trigger framework should be tied to an institution’s own mapped exposures, rather than drawn from a generic list. Each indicator should carry a threshold and a named decision maker. Examples of potential indicators include:

- New designations on relevant sanctions lists.
- Terminations or repricing of correspondent banking relationships in a specific geography.
- Export-licence approval rates for the critical minerals or components on which portfolio companies depend.
- Shipping and war-risk insurance rates through specific maritime chokepoints.
- The concentration of critical vendors in jurisdictions subject to export-control authority.
- Political developments in specific geographies, or specific pieces of legislation.

Element 6: Governance and integration

Finally, geopolitical risk must have a defined “owner” inside an organization. Institutions should therefore designate clear senior accountability for tracking and managing these risks, whether through an existing risk committee or a dedicated forum. Ownership should also map onto an institution’s existing three lines of defence risk management practices, so that business lines, risk and compliance functions, and internal audit each understand their role in managing geopolitical exposure. The mandate of this body should span all three layers of the Triple Exposure framework, since a central insight of this framework is that the layers interact.

Reporting on these geopolitical risks to a financial institution's board should integrate operational, investment, and downstream exposures into a single picture, rather than scattering them across compliance, investment, and strategy reports. Risk appetite statements should address geopolitical exposure explicitly, including concentration limits for contested markets and critical-infrastructure dependencies.

Accountability for geopolitical risk should be explicitly set out. In Australia, APRA's approach is to confirm that responsibility for managing geopolitical risk is assigned to specific accountable persons, and that boards address geopolitical risk explicitly in their annual risk management declaration. Canadian institutions have the equivalent instruments available to them. Thus, a good question to ask is: if a severe geopolitical shock were to occur tomorrow, could the institution name the individual accountable for having prepared for it?

This entire geopolitical risk-tracking apparatus should be embedded within the institution's enterprise risk-management framework and aligned with OSFI's expectations, including Guideline E-21 on operational risk and resilience and the Integrity and Security Guideline.[165] In general, geopolitical risk management should move from being a special topic to being a guiding principle of how an organization operates.

Conclusion

Canada is exposed to the geopolitical and geoeconomic shifts that are fragmenting the world order. As a middle power with significant connections to the U.S., Canada is deeply wired into American financial, technological, and regulatory systems. This means that U.S. economic statecraft is a binding fact of life for Canadian financial institutions. At the same time, many Canadian financial institutions simultaneously hold deep interests in global markets targeted by this U.S. economic statecraft. Finally, these Canadian financial institutions operate within a domestic Canadian financial and economic system so concentrated that no one major institution's geopolitical losses remain its own. This is Triple Exposure, and this is what Canadian financial institutions will need to manage in an era of increasing geopolitical volatility.

The risks these geopolitical shifts generate for Canadian financial institutions are systemic and interacting, and they may be poorly captured by conventional risk-management approaches. Operational risks, above all in the compliance and regulatory domain, are the most immediate. Here, conflicting sanctions regimes, extraterritorial enforcement, regulatory divergence, and dependence on foreign-controlled financial market infrastructure impose escalating demands on Canadian financial institutions. Strategic and investment risks are concentrated in the long-horizon global portfolios of Canada's pension funds and asset managers, whose investments around the world are exposed to geopolitical and geoeconomic forces. Here, impairment and forced divestment are key risks. Finally, downstream risks, such as macroeconomic spillover, sovereignty erosion, domestic political instability, and the return of kinetic conflict to the infrastructure of finance, are those for which many financial institutions are least prepared. These risks may ultimately prove to be the most consequential. These three levels of risk can interact and intersect, and significant dangers lie at these intersections, where a single trigger can cascade through all three layers at once.

None of this argues for retreat. Canada's integration with the United States remains a foundation of its prosperity. The global investments of Canadian financial institutions remain essential to the retirement security of millions of Canadians. And Canada's rich endowments of natural resources are a genuine strategic asset which will grow in importance in the years ahead.

Rather, what is needed is sound preparation. The fragmentation of the world order will continue to evolve in ways no one can forecast with accuracy. This is exactly why the appropriate response for Canadian financial institutions is to build capability, rather than to make predictions. This includes mapping exposures, developing scenarios and writing playbooks, thinking about trade-offs, and integrating oversight. Financial institutions that build these capabilities now will navigate the coming decade from a position of understanding and strength. Those that wait for the risks to materialize will navigate it from a position of surprise and disorientation.

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