The COVID-19 pandemic has created unprecedented challenges for compliance professionals around the world, including those in Canada. The following is a selection of federal and provincial legislative and regulatory actions as well as news and analysis articles compiled by the Thomson Reuters Regulatory Intelligence editorial staff. The selection includes Regulatory Intelligence and Reuters news coverage. More COVID-19 news and information can be found via the TRRI platform’s search facility.

Additional COVID-19 resources are also available on the Thomson Reuters COVID-19 Resource Center. For a regularly updated list of U.S. federal regulations related to the COVID-19/novel coronavirus update, please visit the Skopos Labs Coronavirus Policy Tracker.

You can create your own custom My Updates through the Create a Custom My Updates link on the Regulatory Intelligence homepage. Select your geography and/or content types you would like resources from and include the following keyword search: covid! or coronavirus.

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COVID-19 COVERAGE - CANADA

FEDERAL AND PROVINCIAL COVID-19 LEGISLATION AND REGULATIONS

FEDERAL REGULATIONS

Canada Emergency Student Benefit Regulations, SOR/2020-105

The Canada Emergency Student Benefit Act, S.C. 2020, c. 7 (the Act), which received royal assent on May 1, 2020, created the Canada Emergency Student Benefit (CESB) to provide financial support to post-secondary students, recent post-secondary graduates, and graduating high school students. The Act also provides the Minister of Employment, Workforce Development and Disability Inclusion, with the consent of the Minister of Finance, the regulatory power to adopt the measures and establish the key parameters to implement the Act.

The objective of the Canada Emergency Student Benefit Regulations is to provide financial support to students who, due to the COVID-19 pandemic, are facing challenges to find and retain employment and pay their bills by establishing key parameters needed to implement the CESB. CESB payments to students will build on the relief provided by a six-month interest-free moratorium on the repayment of Canada Student Loans, from March 30, 2020, to September 30, 2020, announced by the Government of Canada in March 2020. The Regulations are deemed to have come into force on May 10, 2020.

Certain Goods Remission Order (COVID-19), SOR/2020-101

The Certain Medical Goods Remission Order (COVID-19) waives otherwise applicable customs duties on imports of medical supplies, including PPE. Relief is available to all importers of specified goods including businesses, distributors, and individual Canadians. Key categories of products covered by the Order include diagnostic test kits, face and eye protection, gloves, protective garments, disinfectants/sterilization products, medical devices, thermometers, wipes, and medical consumables, and other goods (e.g. soap). The Order will reduce the cost of importing these goods, with the primary goal of better equipping Canadian businesses, including essential service providers, of providing their employees with necessary medical supplies, including PPE. The Order came into effect May 5, 2020.
FEDERAL AND PROVINCIAL REGULATORS – COVID-19 UPDATES

FEDERAL REGULATORS

Canada Deposit Insurance Corporation (CDIC)

CDIC Act changes deferred to April 30, 2022 (May 22, 2020)

On May 19, 2020, the Government of Canada advised CDIC by Order in Council that changes to CDIC deposit protection originally slated for April 30, 2021 were deferred by one year to come into force on April 30, 2022. The change provides CDIC members with operational reprieve so they can focus on client service delivery during these challenging times. For more information see the link here. For more information see the link here.

Office of the Superintendent of Financial Institutions (OSFI)


OSFI has prepared an FAQ for federally regulated financial institutions (FRFIs) about measures it has taken to address issues stemming from COVID-19. New or updated topics include:
  • Compensation

For the full FAQ document see the link here.

COVID-19 Measures – FAQs for Federally Regulated Insurers (updated May 28, 2020)

OSFI has prepared an FAQ for federally regulated insurers about measures it has taken to address issues stemming from COVID-19. New or updated topics include:
  • Capital Management

For the full FAQ document see the link here.

COVID-19 Measures – FAQs on regulatory reporting for Federally Regulated Financial Institutions (FRFIs) (updated May 28, 2020)

OSFI prepared an FAQ on regulatory reporting requirements and the recent measures taken to offer FRFIs some flexibility to meet upcoming deadlines for filing regulatory returns. New or updated topics include:
  • Length of approved extension
  • Availability of filing extension relief for regulatory information submitted otherwise than through RRS
  • OSFI’s monitoring of financial risk where regulatory return extensions are granted
  • How long OSFI will offer regulatory return filing extensions

For the full FAQ document see the link here.
SROs, Exchanges and Securities Regulators

Canadian Securities Administrators (CSA)

Canadian Securities Regulators Remind Issuers of Importance of Disclosure in Financial Reporting (May 29, 2020)

Given the significant impacts that the COVID-19 pandemic continues to have on Canadian public companies, the CSA is reminding reporting issuers of the importance of disclosing high quality financial information to investors. The CSA backed the report issued by the International Organization of Securities Commissions (IOSCO) highlighting financial reporting issues that should be considered by reporting issuers to provide investors with relevant and reliable information in their financial reports and related disclosure documents. For more information see the link here.

Temporary Relief from Certain Regulatory Filings Available to Registrants and Unregistered Capital Markets Participants Due to COVID-19 (May 29, 2020)

The securities regulatory authorities in Alberta, British Columbia, New Brunswick, Newfoundland and Labrador, Northwest Territories, Nova Scotia, Nunavut, Ontario, Prince Edward Island, Saskatchewan and Yukon published temporary blanket relief for registrants and unregistered capital markets participants from certain financial statement and information delivery requirements, as a result of COVID-19.

The blanket relief provides a 60-day extension for periodic filings normally required to be made between June 2, 2020 and September 30, 2020 by registrants and, in Ontario, unregistered capital markets participants that rely upon certain registration exemptions. Registrants and unregistered capital markets participants that have already used the prior relief to extend their deadline for any financial statement or information delivery requirements occurring on or before June 1, 2020, cannot use this relief to further extend that deadline. For more information see the link here.

Investment Industry Regulatory Organization of Canada (IIROC)

IIROC Notice 20-0105 - List of Securities Eligible for Reduced Margin (LSERM) (May 27, 2020)

IIROC has published a copy of the List of Securities Eligible for Reduced Margin ("LSERM"), which has been prepared using data available for the quarter ended March 31, 2020. This list must be used to identify securities eligible for reduced margin as set out in Dealer Member Rules 100.2(f)(vi) and 100.12(a)(i) of the IIROC Rule Book [IIROC Rule subsection 5310(1)].

In response to the effects of the COVID-19 pandemic and the market volatility that has resulted, IIROC has made a minor revision to its price volatility calculation approach to more accurately reflect current market risk levels and to mitigate margin rate procyclicality (i.e., the changes in risk-management requirements or practices that are positively correlated with business or credit cycle fluctuations and that may cause or exacerbate financial instability). For more information see the link here.

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Nova Scotia Securities Commission (NSSC)

Blanket Order No. 51-512 - Temporary Exemption from Certain Corporate Finance Requirements During the Period June 2 to August 31, 2020 (May 20, 2020)

The NSSC has published a blanket order, effective from May 20, 2020, providing an extension of 45 days following certain corporate finance requirements during the period of June 2, 2020, to August 31, 2020. Specifically, this extension pertains to:

- certain reporting issuers who may be unable to make certain filings, or send or deliver certain documents, as and when required under continuous disclosure and prospectus requirements; and
- certain issuers who may be unable to make certain filings, or send or deliver certain documents, as and when required under provisions relating to the use of exemptions from the prospectus requirements.

This document is dated May 20, 2020, but was published on the NSSC website on May 27, 2020. For the full text of the blanket order see the link here.

Blanket Order No. 51-513 - Temporary Exemption from Certain Corporate Finance Requirements for Community Economic-Development Corporations During the Period June 2 to August 31, 2020 (May 27, 2020)

The NSSC has issued a blanket order, effective from May 27, 2020, to provide an extension of 45 days to Community Economic-Development Corporations during the period of June 2, 2020 to August 31, 2020 for certain finance requirements. Specifically, the order pertains to corporations required to make filings listed in Exhibit A, or to send or deliver documents listed in Exhibit A, during this period provided that certain requirements be met as listed in this Order. For the full text of the blanket order see the link here.

Ontario Securities Commission (OSC)

OSC updates stakeholders on burden reduction progress (May 27, 2020)

The OSC has provided a Status Update on its 107 specific actions to reduce burden for market participants doing business in Ontario’s capital markets. To date, the OSC has completed approximately 27 per cent of the initiatives set out in Reducing Regulatory Burden in Ontario’s Capital Markets. Thirty six per cent of initiatives are on track for completion within the timelines established last year, and 37 per cent are delayed.

The report sets out the impact COVID-19 has had on burden reduction initiatives. Of the 40 delayed projects, nine are delayed due to COVID-19. Consistent with the CSA announcement on April 2020, the OSC is not publishing new proposals for comment. The OSC recognizes that stakeholders are unable to fully engage in consultation activities at this time. For more information see the link here.

Ontario Instrument 51-505 – Temporary Exemption from Certain Corporate Finance Requirements with Deadlines during the Period from June 2, to August 31, 2020 (May 28, 2020)

As a result of the outbreak of COVID-19 certain reporting issuers may be unable to make certain filings, or to send or deliver certain documents, as and when required under continuous disclosure and prospectus requirements, and certain issuers may be unable to
make certain filings, or to send or deliver certain documents, as and when required under provisions relating to the use of exemptions from the prospectus requirements. The order provides an extension of 45 days following certain corporate finance requirements during the period of June 2, 2020, to August 31, 2020 relating to annual and interim filings or delivery requirements, other continuous disclosure filings, filings related to exempt distributions and lapse dates for a shelf prospectus. The order comes into effect on May 20, 2020 and expires on October 15, 2020.

**Ontario Instrument 81-505 – Extension of Certain Filing, Delivery and Prospectus Renewal Requirements of Investment Funds with Deadlines during the Period from June 2 to September 30, 2020** (May 28, 2020)

The outbreak of COVID-19 and the resulting disruptions to travel, access to office facilities and availability of personnel and resources may present challenges to an investment fund’s ability to meet certain filing and delivery requirements under Ontario securities law. The order provides an extension of 60 days subject to terms and conditions following certain investment fund requirements during the period of June 2, 2020, to September 30, 2020, relating to filing and delivery requirements and prospectus renewal requirements. This order will come into effect on May 20, 2020 and expires on November 30, 2020.

**TMX Group Exchanges – Toronto Stock Exchange (TSX) and TSX Venture Exchange (TSXV)**

**CDS Window Closure** (May 26, 2020)

TMX Select announced that due to the states of emergency currently in effect for several Canadian provincial jurisdictions in response to COVID-19, CDS’s window services in Toronto, Montreal, Calgary, and Vancouver remain closed. As Provincial jurisdictions begin to ease restrictions around business operations, TMX will review and provide an update on the status of its Window service as more information becomes available.

CDS business remains fully operational. Participants can enter deposit and withdrawal requests into CDSX. Participants must work directly with the appropriate transfer agent(s) to determine specific arrangements for the delivery and receipt of certificates. For more information see the link here.

**OTHER NEWS AND SUMMARIES**

**Trudeau asks bank CEOs for views on economy, COVID-19 relief - Globe and Mail**

(Reuters) - Canadian Prime Minister Justin Trudeau has spoken to the heads of the country’s six big banks to get their views on the state of the economy and the COVID-19 relief efforts, the Globe and Mail reported on Sunday, citing multiple sources.²

This was Trudeau’s first one-on-one dialogue with the CEOs since the beginning of the coronavirus outbreak, according to the report, which added that the calls took place around the Victoria Day long weekend.

The topics covered included adjustments required in relief efforts rolled out by the government, need for further support and pressures faced by clients of the banks, the report said, adding that the talks were ‘high-level check-ins rather than deep policy discussions.’

**Bank of Canada's review highlights importance of policy support, uncertainties ahead**

(Regulatory Intelligence) - The Bank of Canada's annual Financial System Review provides support for the view that Canada may avoid structural damage to its financial system from the COVID-19 pandemic.3

The 2020 review, assessing the impact of the COVID-19 on Canada's financial stability, emphasizes the importance of aggressive policy action to help the financial system absorb the economic shock. In measures to countering the effects of control measures to slow the spread of the virus, of tightening financial conditions and the decline of consumer confidence, the bank has coordinated with governments and regulators over targeted policy responses. While these measures have shown signs of succeeding, the unprecedented nature of the COVID-19 pandemic has also exposed vulnerabilities that will enhance the need for flexible policy support as the situation evolves.

Here are highlights of the review, which was issued May 14:

**Impaired market liquidity**

Starting in mid-March, the Bank of Canada intervened to support liquidity in key funding markets, establishing and expanding a range of facilities and large-scale asset purchase programs to address problems with market functioning. The bank's balance sheet more than tripled from $119 billion on March 4 to $392 billion on May 6 through programs that improved market liquidity in Canadian federal and provincial debt, and restored functioning in the corporate bond market.

The Bankers’ Acceptance Purchase Facility had a stabilizing impact on the market for bankers' acceptances, a key source of financing for small- and medium-size corporate borrowers, the report said. Most of the acceptances purchased under the program have already matured and only 20% of the amount offered by the bank has been utilized by market participants since April 6, suggesting a declining need for liquidity support. Additional facilities released to support short-term financing, the Provincial Money Market Purchase Program and the Commercial Paper Purchase Program, were successful in relieving pressure in the provincial treasury bill and commercial paper markets.

**Access to credit**

Impaired market liquidity and increased concerns about the quality of banks' assets drove up the cost of wholesale funding in March, reflecting the potential for more loan losses and greater exposures from the use of credit lines and loan payment deferrals. To mitigate these funding pressures, the Bank of Canada accelerated the implementation of its Standing Term Liquidity Facility to permit financial institutions to borrow from the bank by pledging a broad set of collateral, including mortgages, improving their ability to fund new lending. Thirteen financial institutions have drawn almost $11 billion from the facility, with over 90% of that amount already paid back.

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3 David Pauls, Bank of Canada's review highlights importance of policy support, uncertainties ahead, Thomson Reuters Regulatory Intelligence (May 27, 2020) at [http://go-ri.tr.com/bqWlsT](http://go-ri.tr.com/bqWlsT).
Risks less fully covered by the bank's policy support include credit downgrades in non-bank financing, led by the energy sector. The plunge in global oil prices has impaired the sector's ability to secure refinancing, with possible downgrades potentially doubling the share of high-yield bonds to nearly 50%. A credit downgrade further impacts firms' cash flow positions through increased funding costs, restrictive covenants in debt contracts and increased liquidity demands through margin calls. This pressure puts increased reliance on debt funding from less stable markets.

**High business and household debt**

The ratio of household debt to gross domestic product in Canada is among the highest for advanced economies, and non-financial business sector debt is well above historical averages. As noted in the review, the distribution of debt matters in how the loss of income and revenues will affect the financial system. The share of new residential mortgages with an LTI exceeding 450% rose to nearly 16% in 2019, while the oil and gas and other commodity-related sectors, with limited cash buffers, are most vulnerable to the sharp drop in revenues.

The fact that the pandemic coincides with a period of elevated indebtedness has prompted concerns that households and businesses could be frugal when containment measures are relaxed. A significant fiscal package released by the Canadian government to stem income losses and preserve jobs has shown a commitment by policy-makers to aggressively support economic activity and guard against deflationary pressures, with room to expand these policies as necessary.

**Stress-testing exercise**

A stress-testing exercise assessing the resilience of Canada's banking system shows that the largest banks are well-positioned to endure a severe economic downturn. The first scenario, where containment measures are lifted beginning in May and policy measures limit structural damage to the economy, shows banks in a strong position to manage the consequences of the economic shock. The second scenario, where containment measures extend into summer, shows future growth severely dampened and economic activity remaining below its pre-pandemic level well into 2021.

The stress test shows that without policy intervention the rise in mortgage arrears and non-performing business loans would curtail the availability of credit to both households and businesses. Canada's largest lenders entered the current period of uncertainty, however, in a strong position, with strong capital and liquidity buffers, a diversified asset based and the capacity to generate income.

As the central bank notes, however, the unprecedented nature of the pandemic makes the uncertainty around the results exceptionally high. Unlike other historical events against which the fallout from the pandemic is often measured, the effects of COVID-19 are without recent precedent – global in reach, persistent, and without a defined endpoint. While the bank's stress-testing exercise accounts for an extended containment period in its more pessimistic scenario, it does not account for subsequent closures triggered by uncontrolled community spread in the wake of measures to re-open the economy. Policy support will need to continue to be flexible to mitigate the persistent effects of the recession.
Financial market infrastructure

The Bank of Canada also draws attention in its review to infrastructure and operational challenges, including payment systems and business continuity plans. The bank has signaled the need for a strong regulatory and policy framework to address declining use of cash and the growth of new digital payment methods, particularly as COVID-19 accelerates the movement to alternative payment options such as cryptoassets and stablecoins. Work is necessary to address weaknesses in the current payments system to ensure that a move to alternative payment options will engender the same confidence in their safety and security as traditional methods.

Financial system operations are likewise vulnerable to disruptions from illness and prolonged remote work arrangements. While the major stakeholders have continuity plans in place to manage vulnerabilities, these plans are largely configured around short-term disruptions. The open-ended nature of remote work is putting a strain on operations and highlighting vulnerabilities, including network capacity supporting mass remote work, cyber incidents, the increased security vulnerabilities of remote work configuration to foreign intelligence service and cyber-criminal attacks, trade surveillance and increased phishing and malware attacks.

Canada's Scotiabank sees COVID-19 raising all risks, especially loan losses

(Regulatory Intelligence) - Canada's Bank of Nova Scotia expects widespread economic damage and uncertainty from the COVID-19 pandemic to hamper its operations throughout 2020, the bank's second quarter financial report said on Tuesday.4

"The bank's outlook for the remainder of 2020 will be negatively impacted by the COVID-19 pandemic," Scotiabank said. "2020 earnings will be impacted by lower growth, compressed interest margins, and higher loan loss provisions."

Citing Canadian and international government and regulatory initiatives aimed at supporting liquidity and lending during the pandemic, Scotiabank said it had "bolstered its liquidity position" by participating in the government-sponsored funding measures.

Governments in Canada and other regions have launched programs to support lending and liquidity in financial markets, while regulatory bodies have temporarily amended or delayed various regulatory requirements, including those related to liquidity.

Credit loss provisions drive income losses

Credit-loss provisions erased nearly C$1 billion from Scotiabank's reported net income, which stood at C$1.32 billion as of April 30, 2020, compared to $2.33 billion last quarter and C$2.26 billion a year ago. The bank more than doubled its loss provisions to C$1.85 billion, compared to C$926 million last quarter.

"The [income] decline was due primarily to elevated provision for credit losses driven by the unfavourable macroeconomic environment," the bank said. "A substantial amount of the Bank's business involves making loans or otherwise committing resources to borrowers, including individuals, companies in various industries and governments. The COVID-19 pandemic's impact on such borrowers could impact their ability to repay their loans."

4 Daniel Seleanu, Canada's Scotiabank sees COVID-19 raising all risks, especially loan losses, Thomson Reuters Regulatory Intelligence (May 27, 2020) at http://go-ri.tr.com/6Lj1YR.
The bank reported C$60.1 billion in loan deferrals across 391,000 accounts in Canada in the second quarter. Outside of Canada, the bank extended C$30.9 billion in deferrals across 2.7 million accounts. Such deferrals were granted for three- or six-month periods, with loans continuing to accrue interest during that time, Scotiabank said.

"I would expect [loan loss provisions in] Q3 to look very similar to what we experienced this quarter," Chief Executive Brian Porter said on an analyst call. "The banking sector will be picking up the broken eggshells for a number of quarters."

Earnings were also impacted by provisions for Scotiabank's involvement in a metals trading investigation by the U.S. Department of Justice and the Commodity Futures Trading Commission (CTFC), as well as costs related to winding down its metals business, the quarterly report noted.

Additionally, the bank reported significant expense growth from financial supports to frontline employees and technology investments related to activating business continuity plans, including equipment and services to safeguard employees.

**Pandemic upending loss predictions**

Economic damage and accompanying uncertainty created by the pandemic forced Scotiabank to consider additional factors in determining allowances for credit losses under IFRS 9 regulations, the quarterly report said.

"The unprecedented government response to COVID-19 coupled with changing economic forecasts, including uncertainty of the timing of economic recovery combined with the continued shut-down of economies around the world with limited certainty on timing of re-opening, required additional considerations to determine the allowance for credit losses under IFRS 9, this quarter," it noted.

Turning to its mortgage portfolio, Scotiabank said it undertook "extensive all-bank scenario analyses" to assess the impact of different COVID-19 scenarios and is "confident" that its financial resources could withstand even a "very negative" outlook. "In practice, the mortgage portfolio is robust to such scenarios due to the low LTV of the book, the high proportion of insured exposures, and the diversified composition of the portfolio," Scotiabank said.

**COVID-19 exacerbating all risks**

"As a result of the spread of COVID-19 and government actions taken, many of the risks the bank manages, both financial and non-financial, have increased," Scotiabank said.

COVID-19 will likely weigh on global economic conditions throughout 2020, the quarterly report said, pointing to government-mandated business closures, travel restrictions, quarantines, and stay-at-home directives.

Increased financial market volatility and disruption, interrupted supply chains, and increased unemployment have worsened the economic consequences of pandemic-related slowdowns both domestically and globally, Scotiabank said. Such repercussions raised concerns about a Canadian recession and the sustainability of Canada's exceptionally high levels of household indebtedness, it added.
Remote-work raising cybersecurity concerns

Scotiabank warned of elevated cybersecurity threats stemming from remote working arrangements and the increased use of online solutions by customers.

"The bank, its customers, and third parties providing services to the bank may be subject to a heightened risk of attacks, breaches, and other compromises or operational risks," it said. "The bank is proactively monitoring for increased phishing, fraud, privacy, and cyber attacks, with enhanced awareness of information security threats."

Additional threats could emanate from third-party service providers located in regions either impacted by or at different stages of COVID-19 mitigation measures, the bank added.

"There continues to be significant uncertainties associated with the COVID-19 pandemic, including with respect to the severity of the disease, the duration of the pandemic, actions that may be taken by governmental authorities and private businesses to attempt to contain the COVID-19 pandemic or to mitigate its impact and the potential for the COVID-19 pandemic to have longer term and lasting impacts on the Bank's customers, business and operations," Scotiabank said.

Canada's RBC sees prolonged COVID-19 economic damage, global uncertainty

(Regulatory Intelligence) - The Royal Bank of Canada (RBC) sees COVID-19 continuing to negatively affect banking operations, global economic conditions, and market volatility, while exacerbating a wide array of risks and uncertainties, the bank said in its second quarter financial report on Wednesday. A seven-fold increase in credit-loss provisioning halved quarterly net income for country's largest lender.  

"The breadth and depth of the impact of COVID-19 on the global economy and financial markets continues to evolve with disruptive effects in countries in which we operate and the global economy while also contributing to increased market volatility and changes to the macroeconomic environment," RBC said. "In addition, COVID-19 continues to effect our employees, clients and communities with resultant impacts on our operations, financial results and present and future risks to our business."

Noting that widespread COVID-19 containment measures have "sharply curtailed economic activity," resulting in unprecedented GDP declines and soaring unemployment, RBC stressed that government efforts to cushion the damage were temporary and unlikely to quell uncertainty.

"Significant fiscal and monetary policy stimulus has been implemented across many jurisdictions that is intended to prevent longer-term damage to economies and assist in eventual recoveries," the bank said. "However, significant uncertainty remains with regards to the timing and the extent of recovery, including the possibility of subsequent waves [of infection]."

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Widespread economic contraction

"In April 2020, the International Monetary Fund (IMF) projected global growth in calendar 2020 to fall to -3 percent; a baseline scenario which would mark the worst recession since the Great Depression and far worse than the global financial crisis of 2008," the quarterly report said.

Canada's containment-related economic contraction will likely cause a 40% annualised GDP decline in the second quarter of 2020, following a 10% annualised decline in the first quarter, RBC predicted.

"Temporary business closures and projected declines in revenue have prompted widespread layoffs, with 3 million Canadians losing their jobs in March and April 2020, pushing the unemployment rate to 13.0 percent, and millions more working reduced hours," the bank observed. "Although economic activity and unemployment are expected to partially rebound in the second half of calendar 2020, a full recovery is likely to be held back by the impact of income loss and health concerns placed on consumer spending and housing activity."

RBC also highlighted challenges facing Canada's already beleaguered energy sector, higher debt levels, and suppressed "business sentiment" as factors limiting potential economic recovery to only a "partial" rebound. Despite federal initiatives -- including income support, wage subsidies, loans, corporate tax deferrals, and financial system stability measures -- Canadian GDP was likely to remain "well below 2019 levels" throughout 2020, it added.

In the United States, RBC predicted a 35% annualised decline in GDP during the second calendar quarter, including "sharp contractions" in consumer spending and business investment. While economic activity and employment were likely to "partially rebound" over the second half of calendar 2020, U.S. GDP output will also likely remain "well below 2019 levels" through the remainder of the year, the bank added.

Turning to financial and commodity markets, RBC said equities had "retraced about half" the value lost from initially sharp declines, thanks to significant fiscal and monetary policy support. Oil prices, however, remained at 20-year lows due to a "substantial drop in demand" during the pandemic, the bank said, adding that resolution of a price war between Saudi Arabia and Russia had failed to support higher prices.

Additionally, RBC noted that while lower interest rates were shrinking government bond yields, large scale asset purchases helped offset government borrowing costs for funding fiscal programs.

Uncertainty abounds

"Uncertainty around the duration and intensity of the health and financial crisis could result in global GDP declining further if the pandemic does not recede this year, and even if the pandemic does recede, there could be longer-term effects on economic growth and commercial activity," the bank said.

Equally uncertain were estimates of recovery beyond 2020, RBC noted, because such timelines depend on the pandemic's duration, "including the possibility of subsequent waves," and the effectiveness of fiscal and monetary remedies.
International trade and geopolitical tensions, which were stressing the global economy even before COVID-19, remain at least partially unresolved and are potentially poised to worsen in the pandemic's aftermath, further contributing to uncertainty, the report added. RBC outlined the following additional sources of uncertainty:

- Brexit: The transition period deadline remains December 31, 2020, despite delayed UK-EU negotiations and International Monetary Fund (IMF) requests to extend the transition.
- North American trade: Despite Canada's ratification of the Canada-United States-Mexico Agreement in March 2020, the post-pandemic future of global trade policy "remains uncertain" as countries consider reducing their reliance on the global supply chains.
- Geopolitics and financial markets: Global markets "remain vulnerable" to geopolitical contests, such as those between the United States and China, or between Russia and OPEC, which could fuel market and commodity price volatility.

"Uncertainty remains as to the full impacts of COVID-19 on the global economy, financial markets, and us, including on our financial results, regulatory capital and liquidity ratios and ability to meet regulatory and other requirements," RBC said. "Our diversified business model, as well as our product and geographic diversification, continue to help mitigate the risks posed by global uncertainty."

**Billions lost to credit loss provisioning**

Increased and prolonged financial pressure on individual and small business clients could result in "higher than expected" credit losses, the bank stressed.

RBC's credit loss provisions soared nearly seven-fold to C$2.83 billion as of April 30, from C$419 million in the previous quarter. The provisioning contributed to a 54 percent decline in reported second quarter net income, which stood at C$1.45 billion.

"As impacts continue to materialize, the effects of the disruption on our business strategies and initiatives have adversely affected and may continue to adversely affect our financial results, including the realization of credit, market, or operational risk losses," RBC said. Earnings and returns on equity will remain suppressed, but should pick up in 2022 when the economy recovers, RBC Chief Financial Officer Rod Bolger said on an analyst call.

**Regulatory, reputational risk concerns**

RBC warned it may face "increased risk of client disputes, litigation, [and] government and regulatory scrutiny" stemming both from its own "client relief programs" and from COVID-19's market and economic impacts and resulting government actions.

"We may also face increased operational and reputational risk and financial losses such as higher credit losses amongst other things, depending on the effectiveness of these programs for our individual, small business, [and] commercial and corporate clients," the bank added.

**COVID-19 impact on emerging risks**

RBC noted that COVID-19 had heightened the bank's emerging and "top risks," which included the following:
• Cybersecurity: Information technology and cyber risks were increasing during the pandemic, with malicious activities including COVID-19 phishing emails, malware-embedded mobile apps purporting to track infection rates, and targeting of vulnerabilities inherent to working remotely.
• Data security: Privacy, data, and third party risks have grown alongside expanded telework arrangements. RBC stressed it was "continuously monitoring and enforcing best practices" to maintain confidentiality of sensitive information. Third party service providers were also being monitored for "any impact" on their ability to deliver services, including fourth party risk.
• Canadian indebtedness: Risks related to Canada's already exceptionally high household debt levels have increased during COVID-19, due to rising unemployment and "declining labour participation," the bank said. The economic damage could result in more credit losses and other unspecified "things," it added.