



## The Risk Of Impact On M&A

regulatory risk management BSA-AML

**Summary:** Understanding BSA/AML with merger and acquisition activity. What steps banks can take.

Ok people, we only have 600Ys to figure out how to get off the Earth. Renowned mathematics genius Stephen Hawking says that is all the time we have, if we want to survive. We don't know if he is right, but it does provide an opportunity for bankers perhaps, as all of those space ventures will certainly need some funding.

As can be seen above, it sure seems mathematics can sometimes get in the way of fun. This is especially true these days in bank M&A deals, when calculations are applied to BSA/AML by the regulatory community.

Indeed, some recent bank mergers have stumbled over regulatory review of BSA/AML compliance around being certain the acquiring bank and the acquired bank both have strong enough procedures and processes in this area.

Merger reviews by regulators are a piece of the process, so bankers need to expect a close look around BSA/AML. After all, it is a national security level issue so everyone is on notice that well beyond the regulatory community is watching closely.

Once regulators raise questions, deficiencies must be addressed before a merger can go forward. In some cases, the BSA/AML issue can be enough to derail a deal.

Clearly, community banks must be extra vigilant about BSA/AML compliance on both sides of the deal. Buyers are looking closer at BSA/AML and discounting prices when they see potential risks/costs, potentially walking away entirely or leaving a carve out to protect themselves. Meanwhile, sellers are also building in monetary protections the other way. That's because once they announce a transaction, they essentially are off the market. If regulators have an issue with the buying bank, that can stall or kill a transaction the other way too. It is therefore critical for both parties to understand this and build it into the structure of the deal as well as the due diligence process to avoid hitting speed bumps down the road.

Some banks look at M&A as more of a financial and cultural thing and those are both important. Many also assume they will pass regulatory hurdles with flying colors, but this is not always the case so extra efforts should occur when and where possible. As a bank you can never be entirely sure about everything that might go into the regulatory formula around deals, but understanding that BSA/AML is one of those may help.

There are a number of strategies and steps banks can take to help reduce BSA/AML issues during a merger review. For one thing, the acquirer can closely review exam reports and audits for any BSA/AML issues at the target bank. Similarly, the acquirer can closely review the target bank's policies and procedures for compliance, as well as seek to understand the bank's culture in this area. Then, while most banks will undertake this type of review internally, it may also make sense to bring in an outside consultant with specialized expertise to take a really close look as an extra precaution on key deals.

Since BSA/AML compliance is an important part of the M&A process for regulators, our advice on this is for those banks thinking about M&A in the next 2Y period, on either side of the transaction, to conduct a really

good scrubbing of BSA/AML.

Finally, the acquiring bank will also need to consider how a merger will impact the existing level of compliance. Adding a bunch of new customers and accounts can put a high degree of stress on existing compliance systems and teams. Any acquiring bank will need to be sure you can absorb this new business without undercutting your own BSA/AML compliance.

Identifying and dealing with these issues before a merger application is filed can save money and time for everyone. In some cases it can also literally save a deal, without forcing the players to leave the earthly confines of banking.

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