



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

DIVISION OF BANKING
SUPERVISION AND
REGULATION

SR 94-22 (FIS)
April 8, 1994

**TO THE OFFICER IN CHARGE OF SUPERVISION
AT EACH FEDERAL RESERVE BANK**

SUBJECT: Inspections of Mergers and Acquisitions Activities

Attached are copies of: 1) a System report entitled "Inspection of Mergers and Acquisitions Activities"; and, 2) preliminary mergers and acquisitions inspection guidelines and procedures. Both documents were prepared by an interdistrict team of senior examiners who participated in a project to review the mergers and acquisitions activities of three large bank holding companies during 1993. The project was an outgrowth of the January 1993 interdistrict bank holding company inspection coordination meeting held at the Board. At that meeting, it was agreed that the Federal Reserve System should use this opportunity to prepare examination procedures for conducting reviews of the mergers and acquisitions activities of the larger bank holding companies that are very active in this area, and that essentially treat such activities as a line of business. The primary objective of the project was to identify the risks associated with the mergers and acquisitions process, and to evaluate the actions taken by these large banking organizations to reduce those risks.

The intensive inspections of the mergers and acquisitions process utilized by these large bank holding companies generally confirmed the Federal Reserve's understanding of the mergers and acquisitions process derived from our extensive experience in reviewing applications. Additionally, the reviews provided added insight into practices and procedures currently used by companies engaged in this activity. The results of the reviews were used to prepare the attached confidential inspection report which discusses the risks associated with the mergers and acquisitions process, and the preliminary guidelines and procedures developed by the interdistrict review team that are suitable for immediate use by examiners when reviewing mergers and acquisitions activities at bank holding companies. After the preliminary guidelines and procedures have been field tested by System examiners, they will be reviewed and evaluated for possible revision based on the examiners' experience and suggestions. Subsequently, it is anticipated that the final guidelines and procedures will be incorporated into the Bank Holding Company Supervision Manual.

As noted, the preliminary inspection procedures were generally developed for larger organizations and therefore should be tailored, and modified as necessary, to accommodate the particular circumstances of the company being reviewed. Accordingly, the mergers and acquisitions function need not be inspected annually; rather, it is recommended that the procedures be selected for periodic use based upon the extent of the activity at a particular company and the level of associated risk. These procedures should also be utilized when inspecting large bank holding companies that have only recently initiated expansion programs.

Should you or your staff have any questions regarding the report or the guidelines and procedures, please contact Tom Pritchard of the Board's staff (ext. 2291).

Howard A. Amer
Assistant Director

[Attachment \(PDF\)](#)