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M&A Checklist for Treasury

A practical guide for helping treasury departments through the mergers and acquisition process



Introduction

A treasury department's role in mergers and acquisitions can involve a variety of duties, depending on the department's involvement in its company's acquisition process. Understanding Treasury's role in the process will help provide the best analysis of the acquisition with the aim of preparing for eventual integration. It will also help those involved to organize and focus on responsibilities throughout the integration process, which will pay off for all parties involved in the acquisition. Of particular importance is coordinating with the respective parties to make sure Treasury is involved if it is not tasked with leading the process. At many companies, the process is done by an investment bank or a merger and acquisition group and a company's treasury department is not involved until closing day when funds flow. The key is to take advantage of the expertise of the treasury group.

It's very common in treasury departments to have individuals manage acquisition duties in addition to their day-to-day duties. This document was created with those individuals in mind and is meant to be a timesaving tool for them.

Below is a checklist that can serve as a guide to the many different areas that a treasury group may need to address during the acquisition process. Since no two transactions are ever the same, prudent treasury professionals should use this checklist as a starting point and not as a final one. Some of the items are due diligence related and some are related to integration. This checklist was adapted from information in "M&A from Planning to Integration published by the AFP in 2002", and was reviewed by a team of seasoned treasury individuals active in acquisitions who, collectively, have handled well over several hundred transactions.

The checklist is organized into several categories:

- Bank Relationships and Accounts
- Debt
- Investments
- Foreign Exchange/Commodities
- Letters of Credit, Guarantees and Comfort Letters
- Benefit Plans
- Insurance Related Items
- Treasury Operations and Processes

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Bank Relationships and Accounts

This checklist is for all bank accounts the company to be acquired might have. It is very important to have a complete list and preferably an account mapping so that when the acquisition closes critical steps towards changes in signers and structure of the accounts can be made right away—especially if the ownership of the legal entity changes. Having this information up front will also help to identify the path towards integration or the treasury group.

- Primary bank(s); extent of relationship and current initiatives with banks and providers
- Bank and bank account number(s)
- Purpose for accounts (A/R, A/P, Payroll, Concentration, Funding, etc.)
- Analysis statement(s) if available for the respective accounts
- Bank account flow charts showing how funds flow, legal entities, and transaction types (ACH, Wire, etc.)
- Signers and signature limits including the signer designation procedure/process
- ZBA structures tied to concentration or main account
- Average monthly balances
- Bank contact person (Phone, email)
- Sweep/Offshore account(s) details and any bank relationships
- FBAR reporting compliance status
- Any escrow accounts outstanding and the relevant information

Debt

This checklist is for all debt arrangements the company to be acquired might have. It is vital to review any debt documents prior to closing a transaction. There could be terms in the agreements that might affect the deal structure or costs (e.g., prepayment penalties, liens, events of default). It's also very important to talk with the acquiring company's lending institution to verify loan payment amounts and identify any other potential contract issues. Such discussions should also be held with employees and shareholders who made loans to the company.

- Debt amount
- Lending institution(s)
- Trustee/paying agent and terms
- Indentures, coupons, call premiums, discounts, etc.
- Issuance cost/Underwriting fees
- Amount outstanding
- Maturity (including other key dates, P&I payments, etc.)
- Agreements, exhibits and amendments including all covenants and notices required
- Block account/Revolver tied to bank account
- Inter-company borrowing (entities involved, net positions, rates charged, etc.)
- Lending institution contacts
- Collateral held
- Securitized arrangements and assets included
- If applicable, rating agency information-meeting notes, slides, etc.
- Possible other liabilities to be paid tied to debt payoff such as accrued management fees from private equity holders for example.
- Term loans
- Factoring structures
- Asset backed programs
- Interest rate swaps

Investments

This checklist is for all investment holdings (cash equivalents, short term, and long term) the company to be acquired might have. It is very important to review any investments prior to closing a transaction to make sure they are liquid and not impaired.

- Issuer
- CUSIP
- Purchase date
- Credit ratings
- Maturity date
- Original price/Market price
- Broker/Counterparty
- Identify if investments are held to maturity, available for sale and include book values and unrealized gains/losses
- Investment statements and FASB or IASB reporting (FAS 115, etc.)
- Custodian information if applicable
- Copy of investment policy
- Position on prime money market funds

Foreign Exchange/Commodities

This checklist is for all foreign exchange and commodities transactions that are outstanding or will be expiring relatively soon.

- Currency/Commodity and type of contract (forwards, options, etc.)
- Netting arrangements
- Underlying exposure and measurement methodology
- Purchase date
- Expiration date
- Unrealized gains or losses
- Contract entity name
- Bank/Counterparty
- Authorized company traders
- Accounting considerations for each transaction (FAS 133, 161 etc.)
- FX and hedging policy
- Confirmation procedure, process and any software used
- Exposure gathering process

Letters of Credit, Parent Guarantees and Comfort Letters

This checklist is for all letters of credit issued by the company to support various other financial obligations without posting cash. Parent Guarantees/Comfort Letters are typically issued by the owner or a legal entity to a bank in order to support a particular purpose. If the legal entity that purchased the letter of credit will change as a result of the transaction, it's important to work with the banking partner to make sure any letter of credit will remain in place (if needed) after the transaction closes.

- Amount
- Bank issuer/Advising banks
- Letter of Credit (LC) # or other reference number
- Issuing name/entity
- Beneficiary (including contacts if new LC's are to be issued)
- Expiration date/auto renew date
- Purpose/type: standby, commercial, guarantee, etc.
- Assignable/transferability
- Copy of LC from bank and rate in basis points
- Cash collateral supporting the LC
- Internal company contact information (person, department, etc.)
- UCC version of language in LC's

Benefit Plans

For a treasury department that manages the benefit plans of an organization, below is a general checklist of items to be addressed. Typically this information comes from acquiring company's Human Resources Department (HR) and/or Treasury often will coordinate with HR to gather the information.

- All plan documents including amendments
- Listing of defined benefit and/or defined contribution plans
- Loan policy documents
- Latest asset/liability study
- Investment manager list
- Trustees and custodians including latest SSAE 16 reports, SOK 1, 2 or 3
- Bank accounts owned by benefit vendors from which checks are issued for the company (information only)
- Fee schedules
- Audit and actuarial reports
- Latest trust statements
- Investment offerings for each plan
- Other plans: ESOP, deferred compensation, options, non-qualified plans, relocation programs, etc.
- Impact of DOL fiduciary rule changes on plans

Insurance Related Items

The treasury group may have responsibility for examining insurance-related items or act as a resource with other departments charged with doing so. Consequently, the related information should be shared internally. The checklist below for Insurance related products can serve as an overall guide when requesting information about relevant items:

- List of all policies for company and entities
 - Property and casualty
 - Directors and officers
 - Business interruption
 - Fidelity, crime, etc.
 - Errors and omissions
 - Employment practices
 - Fiduciary
 - Product
 - Cybersecurity
- Entity coverage and overall umbrella
- Open claims and claims history
- Brokers- global and local
- Insurance captives- onshore and offshore details, coverage, outsourcing providers, etc.
- Surety bonds outstanding
- Guarantees on self insurance for worker's compensation
- Coverage of above listed insurance policies before close and after close and identify any potential gaps

Treasury Operations and Processes

The Treasury Operations section of this guide focuses on information necessary to gain a perspective on such operations of the company to be acquired from a treasury perspective. This checklist was composed with the understanding that Treasury has direct control over cash and banking activities.

- Cash accounting procedures
- Bank account reconciliation process
- Bank statement reporting (paper, BAI file, SWIFT messaging, online, etc.) ISO 20022, BSB
- Separations of duties and controls – documentation
- Security procedures and wire authority limits for wires and payments including authorized individuals and call back instructions
- Online access to proprietary banking sites/applications (administrators, user ID's, access level, etc.)
- SOX documentation and processes
- Cash forecasting methodology
- Petty cash outstanding and policies
- Check stock control procedures
- Intercompany activity/in house bank Info.
- All departments that report into target's treasury department (organization chart)
- Overview of collections and disbursements practices
- Armored courier relationships
- Bank files reviewed and format-ISO 20022, BTRS, SWIFT, EDI, proprietary
- Payroll card programs
- Prepaid card programs
- Treasury initiatives/implementations
- Use of technology
 - Treasury workstations, installed or SaaS
 - Account analysis
 - Account record-keeping/Signatories
 - Investment portals
 - Interconnection with other systems (i.e., general ledger)
- Escheatment processes and status on filings
- Dealing systems
- Bank Fees
 - Copies of analysis statements
 - Estimated monthly fees
 - Debited or paid by invoice
- Treasury department internal audit reports
- Bank account information for accounts: procure to pay, relocation, other plans not directly owned by the company but might have an impact on banking decisions
- Closing and funding/wire schedules
 - Wire information
 - Payees and legal entities
 - If necessary, information for 1099 reporting
- Relationships with working capital solution providers

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