

## Effective Compliance Programs Are Necessary When Conducting Cross-Border Acquisition

In a recent survey performed by Deloitte, financial executives in the U.S., Mexico and Canada reported that approximately 63% of deals in the past three years were cancelled or re-negotiated because of corruption-related issues.<sup>1</sup> In general, these deals were either cancelled or re-negotiated because sellers could not demonstrate to buyers that sufficient anti-corruption controls were in place; sellers could not provide comfort to the buyers that unknown, high-value liabilities would not occur in the future.

Enforcement authorities in multiple countries strongly encourage comprehensive corruption-related pre-deal due diligence prior to entering a merger and acquisition or joint venture transaction. Failure to execute proper due diligence can create significant legal, business and reputational risk.

In this environment, setting up risk-based, effective, efficient compliance controls that resonate with potential counterparties makes good business sense. For example, systems designed to address "Know Your Supplier and Distributor" concerns, similar to "Know Your Customer" controls in place within the banking industry, are fast becoming a normative regulatory requirement and thus are increasingly expected in all manner of transactions. Creating such controls helps counterparties price risk exposure and provides comfort that high-cost post-acquisition liabilities will not surface.

Compliance-influenced disruption is occurring not only in deals involving acquisitions, but in all types of deals where cross-border transactions take place. Compliance controls governing anti-corruption, anti-money laundering and sanctions distinguish sophisticated businesses from their competition and make it more likely that these businesses will not only be able to close a transaction, but do so for maximum value.

As more and more business has cross-border components, businesses everywhere should adopt effective compliance programs to distinguish themselves from the competition and increase the likelihood that profitable deals close successfully rather than fail during negotiations.

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<sup>1</sup> Deloitte. 2011 *Look Before You Leap: Navigating Risks in Emerging Markets*, accessed April 3, 2013, [http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/FAS\\_ForensicCenter\\_us\\_fas-us\\_dfc/us\\_fas\\_lbyl\\_navigating\\_risks\\_in\\_emerging\\_markets\\_102412.pdf](http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/FAS_ForensicCenter_us_fas-us_dfc/us_fas_lbyl_navigating_risks_in_emerging_markets_102412.pdf)