Do Big Banks Skirt M&A Laws?

Are big banks using insider knowledge of mergers and acquisitions (M&A) to benefit their mutual funds? Banks are not permitted to share private information about their M&A clients' plans with their mutual fund investment managers because advance knowledge of the transaction gives the funds' stock buyers an unfair advantage.

But anecdotal evidence suggests not all banks respect internal information barriers, and **Tim Mooney, PhD**, assistant professor of finance, wanted to see what the hard data said. He reviewed publicly available records on 3,846 mergers, and examined trading activities by mutual funds affiliated with bank M&A advisors.

Dr. Mooney's study—which was the first to focus on particular value-sensitive periods—found evidence consistent with privileged information being shared between investment banking and mutual fund affiliates. "The data demonstrates that bank mutual funds capture high returns by buying or increasing holdings of merger-target companies advised by affiliated investment banks. Moreover, they were more likely to liquidate holdings of target companies planning to withdraw from a proposed merger—before that fact was announced—thus avoiding potential negative returns."

Overall, Dr. Mooney found that bank mutual funds buy stock of about 22% of target companies advised by affiliated investment bankers—but only 2% of takeover-targets where the bank is not involved. "While it's difficult to show causality between a target hiring an investment bank and that bank's mutual funds buying the target's stock, the data suggests that advance knowledge of takeovers flows across bank divisions, from the investment bankers to mutual fund investment managers," Dr. Mooney says. ■