Reuters Legal News

Political law risks in M&A — Why diligence matters and how to get it right

By Ki Hong, Esq., and Sam Rothbloom, Esq., Skadden, Arps, Slate, Meagher & Flom LLP

AUGUST 3, 2026

As corporate political engagement reaches record levels, acquirors in M&A transactions confront an increasingly complex set of political law risks, often fraught with significant legal and reputational implications. Acquirors may need to assess a target's political activities, as missteps in this area can affect not only compliance but even valuation.

Unlike antitrust, tax, and environmental diligence, political law vetting is not yet standard in M&A practice, creating blind spots that can prove costly after closing.

At the same time, acquirors and targets may need to engage in political activity themselves to help secure governmental approval of the transaction. This article explores the growth of corporate political engagement, the principal sources of political law risk for companies, and the diligence acquirors should undertake to identify, evaluate, and mitigate those risks.

The rise of corporate political engagement

Government today plays a larger role in corporate activity than ever before, driven by increased regulation in the private sector and a growing number of government contracts and public-private partnerships. This expanding governmental footprint has made political engagement not merely advantageous but increasingly important to commercial success.

Companies have responded by significantly ramping up their political engagement. In 2025, federal lobbying spending, as reported under the Lobbying Disclosure Act ("LDA"), reached an all-time high of approximately $5.3 billion, according to *Bloomberg Government* — up from $4.5 billion in 2024, which itself had been a record.

The true scale of federal lobbying spending is likely far greater, as many companies do not trigger lobbyist registration and reporting under the LDA, and the LDA's definition of "lobbying" excludes certain influencing activities, such as communications with most executive branch officials and grassroots lobbying. Also, an increasing number of companies are establishing their own PACs to make political contributions, as well as 501(c)(4) nonprofits to engage in lobbying, issue advocacy, and political activity.

Alongside this trend, companies are retaining lobbyists and consultants to secure government approvals of transactions, such as antitrust clearance — and paying handsomely for it. According to *The Economist*, a consultant close to the Administration charges at least $300,000 per month plus a success fee of at least $1 million to help obtain government approvals of transactions or favorable settlements in lawsuits. "How the Department of Justice became a feeding ground for MAGA lobbyists," April 1, 2026.

Sources of political law risk for companies

With increased political engagement comes increased risk. A target's political law missteps can result in reduced profits, costly investigations, and, in some cases, a material impact on valuation. Higher-risk companies include those that are, or may soon be, highly regulated and those with significant government contracts, large government relations or public policy operations, or politically active management or owners. Unlike antitrust, tax, and environmental diligence, however, political law vetting is not yet standard in M&A practice, creating blind spots that can prove costly after closing.

The relevant bodies of political law span several areas, including anti-corruption, pay-to-play, campaign finance, lobbying, gifts and entertainment, government conflict of interest, and government procurement. The legal consequences for a violation of these laws can, in some cases, be severe. Under strict liability pay-to-play laws, a political contribution by a company or a covered director or employee — or even their spouse or child — can trigger an automatic ban on government contracts in that jurisdiction, in some cases for several years.

Thomson Reuters™

For example, under New Jersey's executive branch pay-to-play law, the ban on doing business with the state can last up to 5 ½ years. These bans apply regardless of the donor's intent, meaning even a single foot-fault contribution can jeopardize an entire government contracting relationship.

Notably, most large financial institutions are subject to federal pay-to-play rules, such as SEC Rule 206(4)-5 for investment advisers and MSRB Rule G-37 for certain broker-dealers and municipal bond underwriters. Under these rules, a covered state or local contribution in any state triggers a two-year ban on receiving compensation for covered business from affected government entities.

A target with well-drafted policies that few employees follow may present more risk than one with informal but genuinely observed norms, as the former can create a false sense of security that can mask systemic undercompliance.

Government conflict of interest laws pose similar risks. They can disqualify a company from doing business with an agency — or even an entire jurisdiction — if it employs an official serving in that agency or jurisdiction.

Additionally, there are anti-corruption laws, such as the federal Honest Services Fraud statute, under which a violation can occur if there is evidence linking a contribution, gift, or other thing of value to a particular government decision.

Beyond the legal consequences, corporate political activity increasingly invites public scrutiny. Activist shareholders have intensified their focus on corporate political spending in recent years, as reflected in a growing number of shareholder proposals on the subject. These proposals — which often demand enhanced disclosure of political contributions, lobbying expenditures, and trade association memberships — can generate significant media attention and reputational pressure, regardless of whether they pass.

Corporate political activity has also given rise to major legal scandals. In 2022, the Federal Election Commission ("FEC") opened an inquiry into Florida Power & Light ("FPL"), an electric utility, following press reports that the company had funneled political contributions through "dark money" groups to support candidates for federal and state office, including so-called "ghost candidates" running as spoilers.

Although the FEC ultimately declined to pursue a full investigation, the company's CEO resigned after months of negative press coverage, and its parent, NextEra Energy, agreed to pay $150 million to resolve proposed class claims alleging it had misled investors about FPL's political activities.

Also, looking ahead, Democrats taking control of the U.S. House or Senate in 2026 would bring Congressional investigations into certain corporate political activity, and a Democrat winning the presidency in 2028 would prompt new DoJ inquiries. Democratic lawmakers in both the House and Senate have already promised to subpoena companies engaged in certain activities — including political engagement undertaken to secure approvals of certain M&A transactions — if they take control after the 2026 election.

Vetting political law risks in M&A transactions

Given these risks, acquirors should consider vetting targets for political law risk. Such diligence can identify violations that may affect valuation and help acquirors structure transactions to mitigate ongoing exposure.

Evaluate and triage target's political law risks

Acquirors should assess both whether to vet a target for political law risk by considering whether it falls within one of the higher-risk categories described above and which areas of political law call for closer scrutiny. Because a comprehensive review of every potential political law issue is neither practical nor cost-effective, diligence should be tailored to the target's specific political activity and government relationships.

For example, in transactions involving companies with significant state or local government contracts, anti-corruption and strict-liability pay-to-play compliance are likely among the most significant issues to consider.

Review enforcement history and screen for pay-to-play bans

Acquirors should determine whether the target has been the subject of any recent litigation or enforcement actions regarding actual or alleged violations of political law. Where the target holds state or local government contracts, acquirors should also confirm that neither the target nor its covered donors have made or solicited political contributions that would trigger pay-to-play bans disqualifying either company from government contracts.

Assess target's political law policies and controls

Acquirors should evaluate whether the target maintains written policies regarding key areas of political law, such as political contributions, gifts and entertainment to public officials, and lobbying.

Diligence should also probe compliance with those policies, including whether employees are trained, whether pre-clearance procedures are followed, and whether a designated compliance function is responsible for oversight. A target with well-drafted policies that few employees follow may present more risk than one with informal but genuinely observed norms, as the former can create a false sense of security that can mask systemic undercompliance.

Structure transaction to minimize exposure and centralize political law operations

Where significant exposure is identified, acquirors may condition closing on remediation of compliance gaps or adjust the purchase price. For example, if the acquiror stands to inherit a ban on business due to a covered political contribution under a pay-to-play law in a significant footprint state, with no waiver or exemptive relief available, the acquiror may seek to reduce the purchase price.

Additionally, acquirors may look to centralize political law operations post-closing — for example, by consolidating the government relations functions of the buyer and target into a single legal entity or merging their respective PACs — to streamline compliance and mitigate legal exposure.

As corporate political engagement continues to expand — and as scrutiny of it intensifies — acquirors that neglect political law diligence may do so at their own peril. The risks are real, and the penalties for violations can be severe. In today's political and regulatory climate, political law vetting has become an increasingly important part of M&A diligence.

Ki Hong is a regular contributing columnist on political law for Reuters Legal News and Westlaw Today.

About the authors

Ki Hong (L) is a partner at **Skadden, Arps, Slate, Meagher & Flom LLP** and head of the firm's political law compliance and investigations group. He advises major corporations on the unique political law issues they face when engaging in government affairs or government procurement activity. He can be reached at ki.hong@skadden.com. **Sam Rothbloom** (R) is counsel in the firm's political law compliance and investigations practice. He also has experience advising on state and local strict liability pay-to-play laws, as well as the federal pay-to-play rules. He can be reached at sam.rothbloom@skadden.com. The authors are based in Washington, D.C..

This article was first published on Reuters Legal News and Westlaw Today on August 3, 2026.