



Blank-Cheque Company

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Why in News

Recently, renewable energy producer 'ReNew Power' announced an agreement to merge with RMG Acquisition Corp II, a **blank-cheque company** or a **Special Purpose Acquisition Company (SPAC)**.

Key Points

- **About Blank-cheque Company:**
 - A SPAC, or a blank-cheque company, is an entity **specifically set up with the objective of acquiring a firm** in a particular sector.
 - The aim of this SPAC is to raise money in an **Initial Public Offering (IPO)**, and at this point in time, it does not have any operations or revenues.
 - Once the money is raised from the public, it is kept in an **escrow account**, which can be accessed while making the acquisition.
 - If the **acquisition is not made within two years of the IPO, the SPAC is delisted** and the money is returned to the investors.
- **Significance:**
 - These are attractive to investors, despite them essentially being **shell companies**, as the blank-cheque companies are people sponsoring.
 - It is a fresh way of thinking of how to structure and exit versus an expensive IPO. The **money is already raised** by somebody who specialises in that area, and is now picking those assets and building on them.

Shell Companies

- A shell company is a **firm that does not conduct any operations in the economy, but it is formally registered**, incorporated, or legally organized in the economy.
- These are **sometimes used illegitimately**, such as to disguise business ownership from law enforcement or the public.

Initial Public Offering

- IPO is the **selling of securities** to the public in the **primary market**.
 - Primary market deals with new securities being issued for the first time. It is also known as the **new issues market**.
 - It is different from the **Secondary market where existing securities** are bought and sold. It is also known as the **stock market or stock exchange**.
- It is when an unlisted company makes either a fresh issue of securities or an offer for sale of its existing securities or both for the first time to the public.

Unlisted companies are companies that are not listed on the stock exchange.

Escrow Account

- It is a legal concept **describing a financial instrument whereby an asset or escrow money is held by a third party** on behalf of two other parties that are in the process of completing a transaction.
- The third-party holds the funds until both parties have fulfilled their contractual requirements.
- Escrow is associated with real estate transactions, but it can apply to any situation where funds will pass from one party to another.

Source:IE