Blank-Cheque Company

March 20, 2021

In News: 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).

About Blank Check Company

- A blank check company is a development-stage company that either does not have an established business plan or its business plan is based around a merger or acquisition with another company or companies.
- Blank check companies generally are speculative in nature and often fall under what the Securities and Exchange Commission (SEC) defines as "penny stocks," that trade for less than $5 per share.
- In an effort to raise capital or finance future operations, a blank check company may choose to issue penny stocks to investors.
- Blank check companies present investors with an alternative similar to private equity.
- All blank check companies are required by the SEC to place all funds received from the offering into an escrow account.
- The companies are also required to fully disclose all terms and conditions of the offering.

Significance of Blank-Cheque Companies

- Attractive to investors, despite them essentially being shell companies, as the blank-cheque companies are people sponsoring.
- Provide a fresh way of thinking of how to structure an 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.

Special Purpose Acquisition Corporation

- A popular type of blank check company is a special purpose acquisition corporation (SPAC).
- The founder of a SPAC pools money from investors and may contribute to the SPAC to form a blank check company with the sole purpose of acquiring another company—or companies.
- The money raised through the IPO of a SPAC is put into a trust.
- The funds are held until the SPAC successfully identifies a viable merger or acquisition opportunity to pursue with the invested funds.
- Investors may not have full knowledge of how their money will be spent, so they issue blank checks to the SPAC. In turn, the SPAC must receive shareholder approval for all acquisitions and 80% of investor funds must be used in any single deal.
- If the SPAC fails to find a shareholder-approved deal within two years of creation, it is liquidated and the SPAC's founder loses the investment.