

Special Purpose Acquisition Companies (SPACs)

April 22, 2022

In news—The US government is considering a regulatory framework for SPACs as recommended by the Company Law Committee to lay the ground for the possible listing of Indian companies through this route in the future.

What is a special purpose acquisition company?

- A SPAC , also known as a “blank check company”, is a shell company (with no operations of their own) listed on a stock exchange with the purpose of acquiring a private company, thus making it public without going through the traditional initial public offering process.
- An SPAC aims to raise money in an initial public offering (IPO) without any operations or revenues.
- The money that is raised from the public is kept in an escrow account, which can be accessed while making the acquisition.
- An escrow account is a third party account where funds are kept before they are transferred to the ultimate party.
- It provides security against scams and frauds especially with high asset value and dispute-prone sectors like Real Estate.
- If the acquisition is not made within two years of the IPO, the SPAC is delisted and the money is returned to the investors.
- While SPACs are essentially shell companies, a key factor that makes them attractive to investors are the people who sponsor them.
- The concept of SPAC has existed for nearly a decade now,

and several investors and company promoters have used this route to take their investments public.

Status of SPACs in India-

- The gross proceeds raised by SPACs amounted to over \$83 billion in 2020 and \$162 billion in 2021. The number for 2022 has crossed \$10 billion already.
- In 2021, renewable energy producer **ReNew Power announced an agreement to merge with RMG Acquisition Corp II, a blank-cheque company**, in what became the **first involving an Indian company during the latest boom in SPAC deals**.
- As of now, the Indian regulatory framework does not allow the creation of blank cheque companies.
- The Companies Act, 2013 stipulates that the **Registrar of Companies can strike off a company if it does not commence operations within a year of incorporation**.