

Roles and functions of special purpose vehicles (SPV): A comparison between Islamic and conventional finance

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ABSTRACT

The SPV (special purpose vehicle) is one of the key components of the securitization in both Islamic and conventional finance; however the details of how the transactions are implemented differ subject to the mode of securitization in Islamic and conventional finance. In conventional finance, the bank establishes a SPV and transfers its asset from its balance sheet to the SPV. The assets are used as the collateral for issuing securitized, debt-like instruments. Nevertheless, in Islamic finance mode of securitization, the SPV just services the cash flows for security holders and do participate in debt-issuance. This difference is originated from the risk-sharing principle in asset-based Islamic finance which contrasts with risk-transfer nature of an interest-based conventional finance and results in important differences in ownership right and valuation of SPVs in the two financial systems.

1. Introduction

The SPV (special purpose vehicle) is one of the key components of the securitization in both Islamic and conventional finance. Gorton (2007) defines SPV, or a special purpose entity (SPE), as a legal entity created by a firm (known as the sponsor or originator) by transferring assets to the SPV, to carry out some specific purpose or circumscribed activity, or a series of such transactions. SPVs have no purpose other than the transaction(s) for which they were created, and they can make no substantive decisions; the rules governing them are set down in advance and carefully circumscribe their activities. Indeed, no one works at an SPV and it has no physical location.

The above definition of SPV clearly define its role as a vehicle to implement the transactions in a securitization process, however the details of how the transactions are implemented differ subject to the mode of securitization in Islamic and conventional finance. Islamic finance is basically a financial system structured on risk sharing i.e. the parties share the risk as well as the reward of a contract. It is in contrast

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to the conventional finance in which the risk is transferred from the financier to the borrower, with the financier retaining not only the property rights claim to the principal and interest but also that of any collateral that has guaranteed the financing arrangement. This will happen whenever an interest rate-based debt contract is used directly or through securitization. (Askari et al., 2012)

The principle of risk sharing has important implications for securitization and hence the special purpose vehicle. In conventional finance, the bank establishes a SPV and transfers its asset from its balance sheet to the SPV. In this process - that is known as off-balance sheet financing - the assets are used as the collateral for issuing new debt-like instruments which is created via securitization such as Mortgage backed securities (MBS). Nevertheless, in Islamic finance mode of securitization, underlying assets are owned by the security holders and the SPV just services the cash flows for them. This securitized assets – which is known as Asset Linked Securities – are not debt instruments and their principle and returns are not guaranteed or insured against risks. These differences – the risk sharing and the ownership of underlying assets – have strong implications for SPVs in Islamic finance.

The study is divided into five sections. Section I introduces the SPV as an important part of securitization in Islamic and conventional finance. Section II explains the risk sharing principle and its role as a key departure of Islamic finance from conventional finance. Section III brings the theoretical background of SPVs and the incentives of using SPVs for financing. Section IV comes out with the difference between securitization in a risk sharing financing mode and a risk transferring one. Section V compares Islamic securitization SPVs with a conventional SPV. Section VI concludes the study.

2. Risk Sharing in Islamic Finance

The devastation that 2007-2008 financial turmoil has inflicted on the global economy has provided the proponents of Islamic finance with a fresh impetus to highlight the fallibility of the conventional system and push the divine one, as they understand it, to the fore as a replacement. The proponents found ‘no risk, no gain’ dictum and discussion on it not buried too deep in the literature for its restoration on the pedestal. The revival is led by Prof Abbas Mirakhor. Risk-sharing has been a major theme in his recent lectures and writings on Islamic finance including the books he has co-authored with others. (Hasan, 2015)

The ultimate implication of risk sharing is that unlike the conventional finance in which the use of debt-like instruments along with leverage results in the transfer of risk from borrowers to creditors, Islamic finance would recommend the use of assets and sharing their risks among the owners. Everyone who has an ownership claim on the asset must bear a part of its risk proportionate to its ownership.

In the aftermath of the financial crisis of 2007–2008, the fundamental stability of the conventional financial system has been seriously questioned. Excessive leveraging, combined with an inherent asset-liability mismatch, exposes institutions to unsupportable risk, and threatens the overall soundness of the financial system. Islamic finance eliminates debt financing and instead promotes equity or direct asset financing, which allows for risk-sharing instead of risk-shifting. (Askari, 2012)

Debt financing, fit in the core of the conventional finance is known as the source of financial instability. Mirakhor (2009, p.58) explains the role of debt financing:

The pivotal element of Minsky’s financial instability hypothesis is debt. So important is this element that Minsky considered his hypothesis as a “theory of the impact of debt on system behavior”. There are two forces that push debt financing to higher and higher levels in the upward phase of the cycle. First, market participants borrow more and more because asset price increases validate their expectations, which undergirded their increased borrowing in the first place. Moreover, as prices increase, the value of

their collateral increases and with it their creditworthiness, allowing them to borrow more. Second, banks and other highly leveraged financial institutions expand credit and push lending in two ways: (i) as prices of assets increase, their balance sheets expand, allowing them to extend more credit; and (ii) they find new ways and means of credit expansion through financial innovation. These financial intermediaries are, after all, what Minsky called "merchants of debt". They are constantly searching for ways and means of expanding their balance sheets. Thus, the debt structure continues to be extended throughout the financial system and beyond to the whole economy.

The essence of risk sharing in Islamic finance would prevent the institutions from creating too much debt and endanger the stability of the whole system. Chapra (2009) argues that in a system where profit and loss sharing (PLS) does not exist, and the repayment of loans with interest is generally guaranteed, there would be no checking over the excess lending and debt-creation.

In 1980s, when the traditional banking sector went unprofitable due to the intense competition in United States, the securitization came out as the new business line of debt-creation. Borrowing by money market instruments and lending through securitization, which is called wholesale funding, would let the financial institutions to escape regulatory capital requirements and leverage ratios that were designed for traditional deposit-loan model of financing. Using off-balance sheet financing via establishing SPVs, financial institutions have been able to hide their risky assets and display a more solvent position for themselves. Although the use of SPVs in off-balance sheet activities had made partial financial distress later - like Enron, which created over 3,000 SPVs for borrowing and went bankrupt in 2001 (Gorton, 2007) – in 2008 the whole system collapsed. There are lots of research in the literature that condemn the securitization and using SPVs in off-balance sheet financing for the excessive risk taking behaviors and the emergence of the crisis (Fligstein 2012, Fligstein 2011, Riddiough 2010, Farag 2015, Nadauld 2009, Acharya 2009, Szablowska 2010) however looking deep at the crisis illustrates that without a risk-transfer approach to finance, the role of SPVs and securitization in 2008 crisis is ambiguous. The role of the risk transfer has rarely been discussed explicitly in the literature. (Buchanan 2016)

The problem of an unstable debt based method of financing has made the Islamic finance asset-linked approach a compelling alternative for conventional finance. In theory, Islamic finance is resilient to shocks because of its emphasis on risk sharing, limits on excessive risk taking, and strong link to real activities. (Hussain 2015). The mobilisation of financial resources toward productive activities through risk sharing enables the Islamic financial system to actualize economic justice and social participation in an efficient manner. The asset-backed equity-financing nature of Islamic finance is conducive to financial system stability because returns which can only be known ex post, and thus shared on the same basis, are not divorced from risk. (Maghrebi, 2015). Nevertheless, Islamic Sukuk is capable of funding social services (Mohamad, et al. 2017).

3. Incentives of using SPVs

According to the Modigliani-Miller theorem, in a perfect capital market the value of a corporation is unaffected by how the corporate liabilities is divided up in different ways. So if capital markets were perfect, there would be no incentive for establishing SPVs and using them in structured finance. As Modigliani (1958) argues: "Under either formulation, the cost of capital is equal to the rate of interest on bonds, regardless of whether the funds are acquired through debt instruments or through new issues of common stock. Indeed, in a world of sure returns, the distinction between debt and equity funds reduces largely to one of terminology".

However it is obvious that in real world financial institutions have strong incentives toward securitization and off-balance sheet financing via SPVs. This means that capital market imperfections usually make institutions to use SPVs in some ways. It is worth noting that these imperfections are common in both Islamic and conventional financial markets, so the incentives here are valid for both Islamic and conventional SPVs.

The title of SPV is closely tied with the securitization which is a well-known revolutionary method of financing in recent decades. In securitization, a firm chooses a bunch of high-quality assets on its balance sheets; sell them off to an SPV and repackaging them in the form of new financial instruments which rated usually higher than the whole firm's credit rating. For a firm to securitize its assets and use them to finance its activities, the use of a SPV is vital. Using a SPV, firms benefit the "bankruptcy remoteness" of these vehicles and bear lower cost of capital.

Although lower financing costs is a compelling enough for a firm to establish a SPV, there are also other reasons that justify securitization and costs of handling a SPV. Reducing the moral hazard problem is one of that reasons. Wang (2016) explains how in financial intermediaries such as bank, the insiders who have discretion over the use of assets on-balance sheet have incentives to divert assets. In his words:

This moral hazard can be generally interpreted as insiders' incentives to engage in ex-post activities that benefit themselves but can hurt outside investors. For example, insiders of a bank have the incentive to ex-post misuse the cash flows of the assets held on-balance sheet, or to ex-post take on higher risks. Insiders benefit from such activities, but outside investors are the ones bearing losses in bad states. The paper shows that securitization can reduce this moral hazard by increasing the remoteness of assets from managers in financial institutions.

Another perspective from which using SPVs benefits the firms is the agency cost problem. Agency costs are the costs generated from the conflicts between interests of managers and shareholders caused by separation of ownership and management in modern corporations. Using data on 357 CMBS deals involving over 46,000 loans, Gan and Mayer (2007) found that in a process of securitization, the special servicer (the third party who is in charge with handling delinquencies and defaults) appear to behave more efficiently, making fewer costly transfers of delinquent loans to special servicing, but liquidating a higher percentage of loans that are referred to special servicing.

One of the channel from which the principle-agency problem leads to the higher agency costs, is through the cash flows. Managers often prefer to keep higher cash than the efficient level in a firm. It is due to the lower risk of cash compare to other assets and thereby lower responsibility for managers. Ngo (2002) argues that management may refrain from encumbering all assets to provide a safety mechanism for itself by inefficiently reducing the riskiness of the corporation and obscuring the effects of shirking. This problem will be intensified when the firms are under control of highly risk averse managers. Additionally, keeping cash benefits management through several the positive side effects that do not need to be registered in financial statements and is hardly tractable via auditing. To encounter this sort of agency costs, transferring cash flows to a third party through establishing a SPV will restrain the management control on the cash flows.

One the most important problems that convinces the financial institutions to use SPVs for financing, is the asymmetric information that is in the heart of financial markets. The asymmetric information problem refers to the condition in which one party in the market or firm possesses "hidden information" which is unknown the other party. This will make difficulties in asset pricing and corporate governance. Iacobucci (2001) has extensively examined the role of SPVs and securitization in reducing information asymmetries. He divides the information asymmetries in two sets: hidden actions and hidden information. Hidden actions refers to the set of informational asymmetries between managers and investors about

managerial actions and uncertain factors that affect security payoffs and that are realized during the period between security issue and the date of security maturity. Hidden information is the set of informational differences among investors that exists at the time that securities are issued. Iacobucci shows that transferring assets to a SPV and securitizing them will enhance the main mechanisms through which the hidden actions of managers are minimized. These mechanisms are direct monitoring, managerial reputation, takeovers and explicit incentive pay. Transferring assets to a SPV can enhance each mechanism by reducing the “noise” in firm performance as a signal of managerial performance that results from corporate assets with cash flows that are uncertain and insensitive to managerial discretion or effort. Securitized assets are often cash flows such as receivables with risk that is more easily assessed than the risk of the general assets of the firm, such as physical assets or intangibles such as goodwill or growth opportunities within a market. Informational asymmetries may therefore arise with respect to the returns on the general assets of the firm, while investors are equally informed about the prospective returns on assets such as receivables. Iacobucci says this means that issuing claims on the receivables avoids the lemons market premium that would be attached to an issue of claims on general assets and can solve the informational asymmetries among investors.

4. Securitization in a Risk Sharing financial system

Securitization in conventional finance involves the issuance of debts backed by the assets which are rated more than the average credit rate of the whole company. In other words, securitization can be regarded as a way to issue debt and raise funds that have a higher rating than that of the company. (Kosowski, 2004). In its most basic form, the process involves two steps. In step one, a bank with loans or other producing asset - that is called the originator - identifies the assets it wants to remove from its balance sheet, pools them and then sells this asset pool to a SPV.

It is how the SPV securitize its asset pool that determines the difference between Islamic and conventional securitization. According to what has been said in section 1, the Islamic securitization facilitates risk sharing between equity holders and the originator, while the conventional securitization facilitates risk transfer from originator to equity holders. This key difference is the point of departure from conventional to Islamic finance.

In second step of the conventional securitization, the company issues tradable, interest-bearing securities that are sold to capital market investors. The new securities are nothing but the new liabilities that is backed by the underlying assets and the holders of these “asset backed securities” do not have the ownership right over the underlying assets. Asset backed securities are often debt-like instruments and the cash flows from securitized assets provides the mean for servicing the debt (Fed, 1990). In most cases, the originator collects payments from the original borrowers and passes them on directly to the SPV and because of that it is called “pass-through securitization”. In conventional securitization, the security holders do not bear the risk of volatility in underlying assets cash flow; they just receive the pre-determined interest rate. The only risk that is held by security holders is the credit risk of the originator that is transferred to them via SPV. In other words, conventional securitization represents a source of finance based on the transfer of credit from issuers to investors. The nature of risk transfer at the core of conventional securitization led to the situation that an increasing number of financial institutions have adopted an “originate-and-distribute” business strategy of loan origination by using securitization to transfer credit risk from their balance sheets to other banks, insurance companies, hedge funds, and other financial institutions. (Jobst, 2010)

On the other hand, the Islamic mode of securitization avoids transferring risk and tries to distribute the risks between both parties. The Islamic securitization, sells the underlying assets pooled in SPV to investors as well all of its risks. Security holders in Islamic securitization have the pro rata ownership over the underlying assets and receive every cash flow that is generated from them. The securitized assets

are completely linked to the underlying assets and every change is reflected in their rate of return. These “Asset linked securities” are not debt-like instruments. The originator collects the underlying assets cash flow and pays them through the SPV to security holders. Because of that, Islamic mode of securitization is necessarily a “pay-through securitization”. Because there is no incentive for transferring risk in Islamic securitization, the Islamic financial institutions would implement the “originate-to-hold” strategy which means they will hold the securitized assets in order to gain real returns.

The conventional securitization has recently been the subject of serious criticisms. As argued by Shin (2009), originate to distribute securitization facilitates greater credit supply and encourages the financial intermediaries to maintain their highest level of leverage to maximize their return on equity. The high level of leverage in a risk transfer mode of securitization endangers the stability of the system on the event of default. The departure of banks from traditional originate-to-hold to originate-to-distribute model in US has led to the growth of the syndicated loan market from \$339 billion in 1988 to \$2.2 trillion in 2007. This has led to the entrance of nonbank investors such as insurance companies, investment management firms, finance companies, collateralized loan obligation managers, private equity firms, brokers and investment banks, pension funds and foreign nonbank organizations to the credit market (Bord, 2012) and the fall of the whole financial market in 2007-8 crisis.

The collapse of the conventional mode of securitization has brought the Islamic securitization as a serious alternative to the sights. Jobst (2010) says as policy-makers and regulators hasten to re-design the financial sector architecture, the soul-searching in conventional finance has directed attention to alternatives modes of securitization to fill the void of unmet credit demand. This effort also involves an assessment of Islamic investment certificates or sukuk, which have grown into a notable capital market segment. The Shariah principles for financial contracts attribute the ownership of the underlying assets to the sukuk holders and oblige them to bear the risks of their owned assets. Radzi & Muhamed (2019) points that these distinguishing features led to Sukuk to be a different category of financial instrument as of conventional bonds and equities. This will change the paradigm and brings a new mode of securitization which shares the risks, instead of transferring them. In addition, there is no leverage in Islamic securitization and financial intermediaries cannot expand credit by issuing new equities. The securitized financial assets in Islamic finance are linked to the underlying real assets and their return fluctuates as the cash flows from underlying assets fluctuate. The risk sharing in securitization would prevent the financial institutions to transfer their credit risk to another party and leads to the transformation of their business strategy from “originate-to-distribute” to “originate-to-hold”. The originate-to-hold strategy has nothing with the speculation behaviors and enhances the sustainability of financial markets.

Changing in securitization mode necessarily needs a change in the role and characteristics of SPVs. A SPV which is established to transfer risk, is much different from the one which is not obliged guarantee the underlying assets in the event of the originator’s default. Instead, a risk sharing SPV has more to preserve the ownership of equity holders on underlying assets and reduce the asymmetric information problem as its common in profit-loss sharing contracts.

5. Difference Between SPV in Islamic finance and conventional finance

Bank for International Settlement (2009) defines the SPV a vehicle whose operations are typically limited to the acquisition and financing of specific assets or liabilities. The general definition of the SPV is identical in both Islamic and conventional finance; however the way that SPV implement its duty differs.

The most important features of an Islamic SPV is facilitating the risk sharing. The risk sharing principle implies the rejection of debt financing and the ownership of the underlying assets by security holders. In the direction of that some governing and regulatory bodies in Islamic finance has addressed standards for Shari'ah compliant financing which has implications for Islamic SPVs. One of these kind of standards is addressed by The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

AAOIFI (2007) has introduced six conditions that should be fulfilled in Sukuk issuance:

- Sukuk must be owned by sukuk holders with all rights and obligations of ownership
- Sukuk must not represents receivables or debt
- The manager of the Sukuk cannot offer loans to Sukuk holder when the actual earnings fall short of expected earnings.
- It is not permissible for the mudharib (investment manager), sharik (partner), or wakil (agent) to re-purchase the assets from sukuk holders for its nominal value, when the sukuk are extinguished, at the end of its maturity. It is, however, permissible to undertake the purchase on the basis of the net value of assets, its market value, fair value or a price to be agreed, at the time of their actual purchase,
- It is permissible for a lessee in a sukuk al-ijarah to undertake to purchase the leased assets when the sukuk are extinguished for its nominal value, provided he {lessee} is not also a partner, mudharib or investment agent.
- Shari'ah Supervisory Boards should not limit their role to the issuance of fatwa on the permissibility of the structure of sukuk.

According to AAOIFI resolution on Sukuk an Islamic SPV should honor four distinctive features that make him distinguished from conventional SPV.

5.1 Acquisition of real assets

In conventional securitization, a SPV is set up solely for the purpose of the securitization and might be a trust, limited-liability Company, partnership or a corporation. In Islamic securitization, the objectives set out in the constitutional documents of the SPV also must not infringe on the prohibition of riba and haram under Islamic law (Jobst, 2007). Several Islamic schools of jurisprudence prohibit the receivables and financial assets securitization. This requires Islamic SPVs to acquire only real assets.

5.2 Transfer of legal title (ownership)

One of the important issues in securitization is that the transfer of underlying assets from originator's balance sheet to SPV should be honor the principle of "true sale", a sale that is sufficient under bankruptcy law to remove the assets from the originator's bankruptcy estate (Schwarcz, 2011).

Both Islamic and conventional finance accept the necessity of true sale, however their definition is different. Common law (practiced in the UK) recognizes sales that fall short of true sales as valid sales. A sale that falls short of a true sale allows a "seller" to "sell" an asset and to retain legal ownership of the asset thus "sold" at the same time. Such a sale does not require the transfer of legal ownership from the seller to the buyer; a sale that falls short of a true sale transfers merely "beneficial ownership" on the buyer (Abdullah, 2012). In other words, conventional finance – which is working under the common law – considers the transfer of "interests" as true sale and do not insist on the transfer of legal title of assets. Schwarcz (2001) explains that in many (conventional) securitization transactions, the SPV purchases

undivided interests in receivables and the Bankruptcy Reform Act applies to the sale of interests in receivables.

Sukuk holders are ultimately the owners of the underlying assets which are securitized in form of Sukuk. Islamic spv should preserve their ownership and protect it from what happens for the originator firm. Although removing the underlying assets from the originator balance sheet and transferring them to the SPV will protect the assets from the credit risk of the originator, it does not completely mean that the ownership of the assets is preserved. Any appreciation of the assets' price, belongs to the equity holders and the SPV must ensure it is not violated by revaluation of the originator's asset. Without the transfer of the legal title to SPV, the risk sharing principle is violated and the Islamic instruments would be similar to debt instrument. In order to ensure the ownership of Sukuk holders on underlying assets, Islamic finance insists on complete transfer of ownership to SPV. In the popular sale-leaseback *ijarah sukuk* transaction structure ("sale model"), the SPV holds legal title to the assets, which are leased back to the originator (Jobst, 2007). AAOIFI (2007) addresses that the manager issuing the Sukuk must certify the transfer of ownership of assets in its books, and must not keep them as his own assets. Based on the insistence of Islamic finance on legal title transfer, Hidayat (2013) concludes that there is no true sale in asset based structure of Sukuk since Sukuk holders do not have concern in the underlying asset. Therefore an Islamic SPV must attain the complete ownership of the assets which is not necessary for a conventional SPV.

5.3 *Pro rata ownershi:*

Because the SPV's business activities are constrained and its ability to incur debt is limited, it faces the risk of a shortfall of cash below what it is obligated to pay investors. This chance is minimized via credit enhancement (Gorton, 2007). A common way to do this is for the SPV to issue multiple classes, or tranches of securities, with the most senior-priority securities being paid first (a senior-subordinated structure). Senior securities are thereby made less risky than the average risk on the SPV's financial assets because collections on all those assets, even collections intended to otherwise support payment of subordinate-priority securities, are dedicated first to assure payment of the senior securities (Schwarcz, 2011). Conventional SPVs mostly use tranches to make safer, highly liquid, attractive assets. Nevertheless, it could not be used by Islamic SPVs.

Using tranches for an Islamic SPV is inconsistent with the risk sharing principle. Dividing the SPV to classes with different risk-return profile means that some classes bear the risks of others while both are the owners of the same assets. In addition, tranches liken the Sukuk to debt-like instruments. Maghrebi (2016) argues when cashflows from the pooled assets are dedicated to servicing particular tranches according to predetermined rates of return independent of underlying risks, there are concerns about a regression to the notion of interest. To avoid these problems, Islamic SPVs should represent the pro rata ownership of Sukuk holders on underlying assets that means, everyone is exposed to the same level of risk as others and receives the return without priority.

5.4 *Ex post valuatio:*

The value of a conventional SPV is certainly determined before the creation of any cashflow. It services instruments that bear interest; regardless of how much cashflow is made in real sector, the financial sector values the SPV according to the risk-adjusted interest rate assigned to the underlying asset pool.

Because the Islamic instruments prices are theoretically a function of asset returns in real sector, the valuation of an Islamic SPV cannot be determined at the first of the period. According to the level of risk that is shared by the Sukuk holder, the returns may fluctuate and differ from one period to other. It is

possible for a SPV to estimate the returns ex ante, but the certain valuation is possible only after the realization of cash flows. So Islamic SPVs' valuation is Ex-post.

6. Conclusion

This paper is concerned with the similarities and differences between special purpose vehicles (SPV) in Islamic and conventional finance. Risk sharing principle as the Islamic finance building block is the basis for substantial differences with conventional finance. Risk sharing requires a financial sector which is affiliated with real sector and its risk. On the other hand, the conventional finance, using interest bearing debt-like instruments typically tends to risk transfer. As a result, Islamic finance has been known with more stability than conventional finance in recent 2008-9 crisis.

Although the two systems is basically different, there are general incentives toward SPVs that's common in both Islamic and conventional finance. These incentives are inherently come as a result of capital market incompleteness. Agency costs and asymmetric information are two main sources of incompleteness that justifies the use of SPVs in financing.

Risk sharing and risk transfer have serious implications in securitization. In conventional finance, the securitization is a process of transferring credit risk from originators to security holders. This will make securitization a process of credit expansion through issuing debt-like instruments and leads to an "originate-to-distribute" strategy. On the other hand, Islamic finance mode of securitization facilitates sharing risks among security holders, so it issues asset-linked securities and results in an "originate-to-hold" strategy.

The result of different modes of securitization is reflected in SPVs. Islamic SPVs diverge from conventional ones in 4 ways; all are intrinsically resulted from risk sharing principle. First, Islamic SPVs acquire real assets while the acquisition of debt or receivables is prohibited by Islamic jurisprudential schools. Second, Islamic SPVs hold the legal title of assets. Transferring beneficial ownership, as is common in conventional finance, is in contrast with risk sharing principle. Third, Islamic SPVs represents the pro rata ownership of Sukuk holders. Dividing a SPV to different tranches with different risk-return profile, means some enjoys less risk but having the same ownership right as other. Fourth, Islamic SPVs are valued ex post. The certain valuation of Islamic SPVs is possible only after the realization of cashflows, unlike conventional SPVs which are valued according to the risk-adjusted interest rate assigned to their underlying assets.

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