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Agency Costs and Corporate Sukuk Issuance

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Abstract

Once a niche financial instrument, sukuk have become a mainstream alternative source of capital for corporations. This paper examines the motivations for firms to finance their investment opportunities using sukuk rather than conventional bonds, and their choice of sukuk structure. We test the agency implications of sukuk design for a sample of 230 corporate bonds issued in Malaysia from 2001 to 2014. Our results are consistent with the agency cost mitigation of free cash flow and underinvestment providing a core rationale for firms' adoption of such a complex asset-based financing. Our results are robust to sample selection bias, a wide array of controls, and alternative specifications.

Keywords: Sukuk; Asset-based finance; Securitisation; Extensive contracting; Agency costs; Financing structure choice

JEL Classifications: G32, G38, G28, G14

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