



Is the Underlying Asset an Effective Source of Trust: Evidence from Indonesian Sukuk Market

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Abstract

This research aims to investigate stock market reaction toward asset-underlied sukuk in Indonesian Sukuk Market. The novelty of this research is to test the market reaction associated with the issue of the underlying asset on the sukuk. To do that, we use event studies during 15-days pre and 15-days post issuance. There are 34 firms with 84 events from 2008 to 2019. Our results suggest that the sukuk is not statistically meaningful to investors. The shareholders could not have confidence in their funds' underlying assets as collateral for Sukuk's issue. It might still be viewed as bonds and other debt policies by investors. Investors need to be given confidence and secure in their investment, not just underlying asset but by handing over certificates of asset ownership. This study contributes empirical evidence to testing investor reactions to the issuance of guaranteed sukuk with underlying assets.

Keywords: *Sukuk Issuance; Stock Market Reaction; Indonesian Sukuk Market*

INTRODUCTION

The financial needs of a company can be obtained from various sources, both from an internal or external source of the company. Various theories related to the capital structure have been known in finance, such as; pecking order theory (Allen, 1993; Baskin, 1989; Myers & Majluf, 1984), trade-off (Modigliani & Miller, 1963), market timing (Baker & Wurgler, 2002) and many others. Any additional capital will affect the capital structure and costs. The cost of capital is one of the significant considerations for companies to increase capital for various purposes

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economically. Issuance of bonds is an option in increasing a company's capital by considering cash flow, the amount of debt, the ability to pay interest, and the principal of any debts that will be due (Astrauskaite & Paškevicius, 2014; Morellec et al., 2015; Cupian et al., 2020) and corporate governance characteristics (Russo et al., 2021; García et al., 2023). Companies tend to choose bond issuance compared with banks' debt loans because it does not require collateral as required in bank loans. Besides, its cost of fund is cheaper; the bond coupon interest rate is more flexible following the issuer's needs with the maturity that is adjusted to the needs of the originator and bonds issued recently are called green bonds (De Mariz & Deschryver, 2020).

An alternative source of funds can also be done through Sukuk, a form of fund source for a company under the provisions and contracts based on Sharia (Islamic values) (Alam et al., 2013; Razak, et al., 2020; Ni'mah et al., 2020; (Kunhibava et al., 2021). Sukuk is a different financial instrument compared vis a vis conventional bonds in several aspects. The yield given by Sukuk is based on the selected contract and does not use interest instruments. An underlying asset secures each Sukuk issuance as collateral for the invested investor's funds. This guarantee is provided by an independent body called the Special Purpose Vehicle (SPV) (Zulkhibri, 2015; Klein & Weill, 2016; Razak, et al., 2019). Underlying assets in Sukuk as collateral for investor investment are expected to increase investor trust towards the originator.

Sukuk was introduced in 1978 in Jordan through Sukuk *muqarada* issued by Jordan Islamic Bank, followed by Pakistan in 1980 (Abrorov, 2020). The first corporate sukuk was issued by Shell MDS Malaysia in 1990 (Zulkhibri, 2015). Early Sukuk's development has not been successful due to a lack of infrastructure, financing allocations, and transparency. The issuance of Sukuk by the Malaysian government put the Sukuk on good terms (Abrorov, 2020). The practice of bond securitization is applied to Sukuk and then changed the sukuk scheme in the following years.

Sukuk becomes increasingly part of the global institutional investor portfolio and represents the fastest-growing Islamic finance sector. Its asset increases from 8 to 300 billion USD in the 2003-2014 period and is expected to double the value of 2014 over the next few years (Moody, 2014). Recently, non-Islamic countries have also hosted Sukuk issuance. In the middle of 2014, Britain became the first



Western country to host these assets, followed by Luxembourg and Hong Kong (Sclip et al., 2016). The growth of Sukuk has greatly increased compared to other Islamic financial instruments. The growth reached 84% per year during the period of 2001 to 2007. The largest number of Sukuk issued were in the Middle East and Malaysia. Nearly 70% of the global main Sukuk originates from Malaysia (Islamic Financial Services Board, 2018). Sukuk has opportunities and challenges in the realm of Islamic finance today. The development of Sukuk can be seen in various countries such as Dubai, Pakistan, Indonesia, England, Egypt, Arabia, and so on (Tahmoures, 2013). The growing sukuk issuance around the world rose 4,4% YoY during the first nine months of 2020 (Boukhatem, 2022).

Sukuk is one of the most innovative platforms to develop a contemporary Islamic financial service. It acts as an alternative funding source, especially for government and corporate companies (Ayub, 2012). The development of Sukuk in Indonesia has increased significantly. In 2019, the outstanding value of Sukuk reached 1.60 billion US\$ with 109 outstanding Sukuk. The accumulated issued value reached 2.64 US\$ with 185 Sukuk issuance numbers (OJK, 2021).

On account of the globally fast-growing sukuk development, some studies highlighted the relation of market reactions and sukuk and bonds issuance. Radzi & Lewis, 2015; Husman & Sakti, 2021) showed that sukuk emphasizes both quantitative and qualitative aspects related to sharia compliance. Usmani (2007) noted that 85% of sukuk schemes in the Middle East are not sourced from Islamic teachings. These two studies examined sukuk and its compliance with Islamic law. Other research relates to the increase in stock prices of issuers that issue green bonds. The first issue has an increase in share price around the announcement that is higher than the subsequent issuance (Tang & Zhang, 2020). Different research results were presented by Klein et al. (2018) issuance of Sukuk received negative reactions in the short and medium-term. Previous research examines the legal and stock performance of the Sukuk announcement reaction. This study further examines the market reaction and its impact on investor confidence in the Sukuk backed up by assets. The novelty of this research is to test the underlying assets on investor confidence in the issuance of sukuk.

LITERATUR REVIEW

Theoretical background

Sukuk is a certificate with the same value used as a right intangible asset, products, and services or as equity in a project or investment activity. This differentiates the Sukuk from pure equity, notes, and bonds. This emphasizes that Sukuk is not a debt of the originator rather a fractional or proportional interest in an underlying asset, usufructuary, service, project, or investment activity. Sukuk cannot be issued based on a collection of receivables that are not their own. Furthermore, the underlying business or activity and the transactional structure underlies it must comply with Sharia (McMillen, 2013).

As one of the favorite instruments in Islamic finance, sukuk is widely used in the international market and helps to move capital flow outside the domestic market. Under the hard work and rigorous development agenda, all countries can expand the role of Islamic finance in contributing to global growth and financial stability (Ahmed, 2014). Since its introduction in 1978, sukuk has become alternative financing for companies and countries that have experienced significant development. At least three things influence this development: First, many infrastructure and financing allocations can be financed through the Sukuk scheme. Second, the increasing level of investor trust in the Sukuk scheme is backed up by the underlying asset. Third, the company has a financing alternative with an equity participation scheme rather than a debt instrument.

Radzi & Lewis (2015) explained that there are two forms of Sukuk; asset based Sukuk and asset-backed Sukuk, and most Sukuk issuances in the world are asset based Sukuk. Sukuk is a form of bond that is in accordance with Islamic values, which is a certificate of equity participation issued by companies or the state. On one side, Sukuk is similar to bonds because they have a coupon and a return on all maturity funds. On the other hand, Sukuk is different from bonds because it is not debt-based, compensated with interest. Besides, Sukuk must have an underlying asset in each issue (Klein et al., 2018).

Underlying assets can be tangible assets, the proceeds of assets or services, certain projects, or special investment activities. When Sukuk certificates are issued to investors, they represent equal and proportional ownership in the underlying assets (Habib, 2018). Sukuk is a financial instrument that is fully

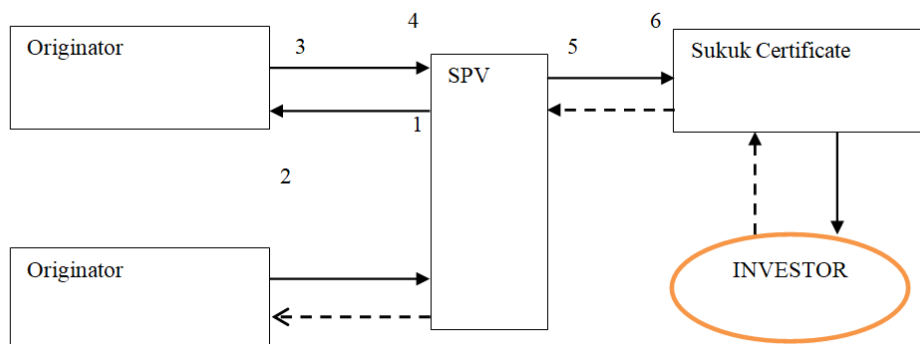


backed up by assets without moving assets with no need for fractional reserve on the company's capital. Back-up assets, better known as underlying assets, are expected to give investors' confidence in their Sukuk investment. Underlying assets, which are the characteristics of Sukuk, can be an added value for investors for the safety of their invested fund. Underlying assets can reduce the level of risk involved in Sukuk funds, so it can be said that Sukuk is an investment with zero risks.

Sukuk can be used as a form of funding as well as an investment by forming a process towards the contract structure that can be offered to avoid usury. Sukuk have a stipulation that "any combination of assets (or use of these assets) can be represented in the form of written financial instruments that can be sold at market prices provided that the composition of the asset group represented by the Sukuk consists of the majority of tangible assets (Chance, 2009).

On the other hand, Sukuk can affect the company's capital structure by reducing the proportion of debt yet getting additional fresh funds. The use of Sukuk is required in sharia-based companies because the company's debt ratio of total interest-based debt is limited to a certain level. The use of Sukuk does not include debt composition because it does not use an interesting mechanism to compensate for its issuance. The fundamental difference between Sukuk and bonds is the use of SPV and Underlying assets as collateral for the issuance of Sukuk. The compensation for the issuance of Sukuk can be made using a mechanism that has been determined under Islamic teaching and is free from the interest system. The compensation for the issuance of Sukuk is given following the selected agreement and is offered to investors. The contracts used in Sukuk are profit-sharing-based (*mudaraba*, *musharaka*), services (*ijarah*), profit margin (*murabaha*), agency (*wakala*), and other contracts. The various contracts are adjusted to the originator's interest and with different compensation according to the contract chosen. The basic arrangement of the Sukuk structure is described in Figure 2.

Figure 2: The process of Sukuk issuance.



The steps of Sukuk issuance as depicted at Figure 2:

1. The originator sells the assets for lease to SPV.
2. The originator receives payment for the assets sold.
3. SPV leases the assets back to the originator.
4. SPV receives lease payments from the originator based on a certain maturity.
5. SPV collects funds from the issuance of Sukuk certificates to finance the originators' purchase of assets.
6. SPV uses lease payments from the originator to cash the distribution on the Sukuk certificate.
7. Investor pays certain amount of money to obtain the certificate
8. Investors receive periodical fund distribution with the fund sourced from originators' lease payments on the leased assets. (Tariq & Dar, 2007).

This study examines the existence of underlying assets as collateral for the issuance of sukuk. the underlying asset is part of sharia compliance and is a requirement for the issuance of sukuk. Underlying assets differentiate with bonds and provide guarantees to investors for their investment.

Testing is carried out through market reactions at each issuance of sukuk, testing will detect whether the underlying asset can provide confidence as collateral for the issuance of sukuk which provides a sense of security for investors. The market will give a positive reaction if investors think that the underlying asset can provide a sense of security for their investment.



Hypothesis Development

Usmani (2007) argued that 85% of Sukuk issued in the Middle East are not following Islamic law and mimic conventional bonds' mechanism. Klein & Weill (2016) found that moral hazard behavior and adverse selection schemes contributed to explaining the choice to issue Sukuk due to these instruments' structuring. In practical field of sukuk platforms, Lashawna (2013) suggested that it does not exist principles of justice, such as the absence of usury, monopoly, *gharar* (major uncertainty), *ghallat* (mistake), *ghubn* (inequality), and *taghrir* (deception). Radzi & Lewis (2015) emphasize that the recent issuance emphasizes quantitative aspects and its absorption but ignore shariah-compliance aspect in its issuance. Furthermore, Tariq & Dar (2007) discussed various risks faced by sukuk, such as financial asset risk, market share risk, and liquidity risk, while offering several features to reduce the mentioned risks.

Grassa & Miniaoui (2018) identified why firms prefer to issue sukuk rather than bonds or *vice versa* in Middle Eastern countries. The old and large firms choose bonds to meet their financial needs. Sukuk is popular for large debt needs and long tenors. Furthermore, Ayturk et al. (2017) found that companies with high credit risk tend to choose sukuk in the international market.

Klein et al. (2017) tested through market reactions which showed negative market reactions in both the short and medium-term. Sukuk issuance can hinder company performance and increase agency cases. Tang & Zhang (2020), in research through market reactions, stated that the Sukuk issuance announcement received a positive reaction. Research also shows that institutional ownership increases with the issuance of Sukuk and provides benefits to stakeholders. Ariff et al. (2013) and Safari (2012) stated that Sukuk can affect company performance but have a negative market reaction effect on issuance. The use of Sukuk for production, infrastructure, and consumption activities is not permitted with a higher yield rate than bonds.

Alam et al., (2013) examined a market reaction between Sukuk and conventional bonds during crisis and after the crisis. Their work shows the negative reaction to sukuk issuance pre and post crisis. The market reaction is positive for the issuance of conventional bonds during the crisis and after the crisis. The different tests show by Mohamed et al. (2017), the market reaction is



positive after 30 days after Sukuk issuance. It attributed to a good condition of companies financial and investment position. Godlewski et al. (2013), explained there is no significant stock market reaction to conventional bond and negative reaction to Sukuk issuance. Other suggested a positive reaction in the post-crisis (Rahim & Ahmad, 2016) due to awareness and demand of Islamic financial product. In contrast, for conventional bonds, the market reaction is insignificant (Khartabel et al., 2020). This study efforts to examine stock market reaction toward sukuk issuance in which its significance is still debatable. According to previous works we document, we generate the hypothesis as follow

H: There is a positive significant stock market reaction toward sukuk issuance

RESEARCH METHOD

We intend to investigate how stock price reaches against Sukuk issuance. Our data source is from the Indonesian Stock Exchange. We observe firms that issue Sukuk from 2008 to 2019. There are 34 firms in which most conduct seasonal issuance, so as we have 84 events in total. With respect to Fama (1969), Strong (1992), and Brown (1985), in practice, confounding effects, for example, macroeconomic news released by the government, might simultaneously contribute to stock price adjustment along with an event.

Then, We should mitigate the effects by calculating abnormal return, which is the difference between actual return and expected return. To test overall market responses, we generate cumulative abnormal returns during event periods in which we span 15-days pre and 15-days is the number of abnormal returns over a certain period. The test of market reaction on this study will be conducted based on the mentioned framework on Sukuk issuance's announcement.

We use Jakarta composite index (JCI) to measure the market portfolio. Then, it is transformed into a simple return form as follow:

$$R_{m_t} = \left(\frac{JCI_t}{JCI_{t-1}} \right) - 1 ; R_{it} = \left(\frac{P_{it}}{P_{it-1}} \right) - 1 \quad (1)$$



where R_{m_t} : market portfolio return; $IHSG_t$: Indonesia composite Index; R_{it} : and return of a share; P_{it} : the price of a stock.

The presence of market reaction to a special event can be detected with average abnormal return (AAR_t). We should calculate abnormal return (AR_{it}) which is the difference between actual (R_{it}) and expected stock return (\hat{R}_{it}). Strong (1992), MacKinlay (1997), and Brown & Warner (1985) suggested market model and market-adjusted return to estimate \hat{R}_{it} as follow:

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{m_t}) \quad (2)$$

$$AR_{it} = R_{it} - R_{m_t} \quad (3)$$

To adopt the market model (Eq. 2), we predict alpha (α_i) and beta (β_i) coefficients during estimation or prior event windows, which are generally assigned with $[d_1, d_2]$, d_1 -day to d_2 -day prior to the event date. There is no general estimation window suggestion. For instance, Godlewski et al. (2013) and Mahomed et al. (2018) suggested $[-100, -10]$ and $[-180, -40]$ respectively so as we choose $[-215, -15]$ to predict alpha and beta.

The further issue regarding β_i estimation is a non-synchronous trading effect due to less frequent transaction in an emerging market, especially Indonesia (Mahomed et al., 2018; Pasaribu, 2009; Salamudin et al., 1999), thus generating biased β_i . Then we apply Scholes & Williams (1977) 's method to adjust the value of β_i by the following Equation:

$$\beta_{SW,i} = \frac{\beta_i^- + \beta_i^0 + \beta_i^+}{1 + 2\hat{\rho}_M} \quad (4)$$

where β_i^- is estimated first-lag market beta; β_i^0 is contemporaneous market beta; β_i^+ is first-lead market beta; and $\hat{\rho}_M$ Is the first-order autocorrelation of a market return.

After predicting alpha and beta, we observe AR_{it} during 15-day pre and 15-day post-event $[-15, 15]$ for each firm by Equation (2) and (3). Then, AR_{it} is cross-sectionally demeaned by the Equation 5:

$$AAR_t = \frac{1}{n} \sum_{i=1}^n AR_{it} \quad (5)$$

where n is the number of stock samples.

As AAR_t indicates market reaction at a day during event windows, cumulative average abnormal return (CAAR) can depict overall market reaction. In Eq. (6), CAAR is composed of the sum of average abnormal return during the determined test periods, namely, $s1$ and $s2$. To make simple test, we implement paired event dates, for example, $[-1, 1]$, $[-2, 2]$, $[-3, 3]$, etc.

$$CAAR_{(s1,s2)} = \sum_{s1}^{s2} AAR_t \quad (6)$$

Last but not least, the significance of AAR and CAAR values must be examined by statistical method. As suggested in previous studies (Godlewski et al., 2013; Mahomed et al., 2018; Salamudin et al., 1999), we utilize a parametric approach, student t-test, which is a ratio of average abnormal return to estimated standard deviation. The following Equation describes t-statistics calculation:

$$t = \frac{AAR_t}{\delta_{AAR}} \quad (7)$$

δ is the standard deviation of AAR. Technically, it is predicted over estimation periods, $[-215, -15]$ to mitigate biased results during issuance date. Equation (8) displays how to calculate δ_{AAR} in detail.

$$\delta_{AAR} = \sqrt{\left(\sum_{t=-d1}^{t=-d2} (AAR_t - \widehat{AAR}_t)^2 \right) / (d1-d2-1)}; \widehat{AAR}_t = \frac{1}{200} \sum_{t=-d1}^{t=-d2} AAR_t \quad (8)$$

In our context, $d1$ and $d2$ are 200-days and 15-days before event periods. A similar treatment is applied to test the CAAR values as follow:



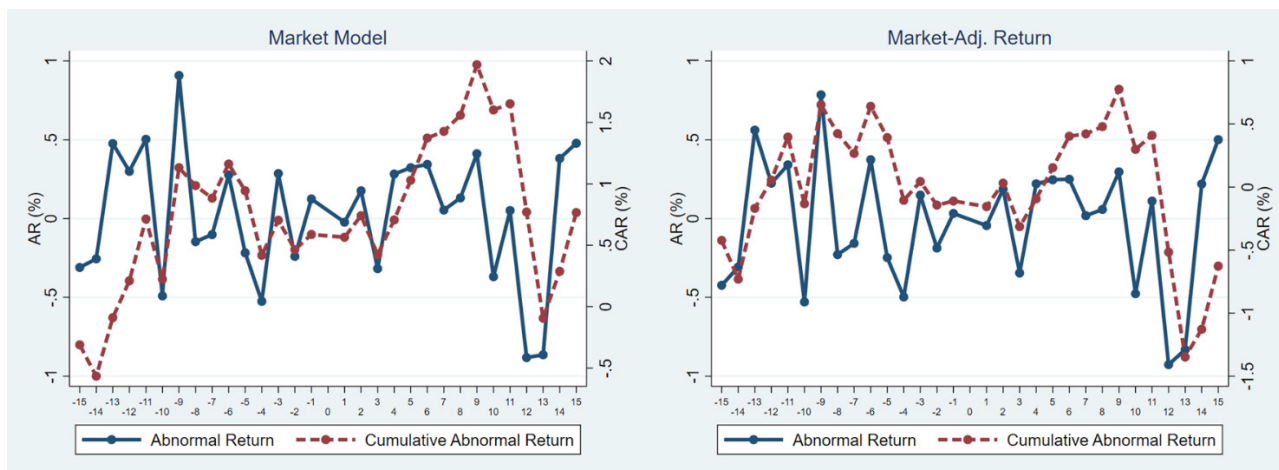
$$t = \frac{CAAR_{(s1,s2)}}{\delta(CAAR_{(s1,s2)})}; \delta(CAAR_{(s1,s2)}) = \sqrt{T\delta_{AAR}^2} \quad (9)$$

In Equation (9), the standard deviation of CAAR, $\delta(CAAR_{(s1,s2)})$, is the root of multiplying between testing periods and variance of AAR during estimation dates. If t-statistics for AAR and CAAR are greater than t-table, then the null hypothesis (H_0), which market reacts to Sukuk issuance, is rejected.

RESULTS AND DISCUSSION

Research Result

This section discusses the market reaction pattern during 15-days pre and 15-days post-issuance date and the statistical results to examine our hypothesis for sukuk issuance 2008-2019. First of all, Graph 1 depicts AAR and CAAR movement, generated from two calculations (market model and market-adjusted return), during the event window. It is seen that upward CAAR trends evolve for 3-day to 9-day post-issuance but tend to decrease after the period. To confirm our graphic analysis, we need a statistical approach, thus verifying our hypothesis indeed.



Graph 1. AAR and CAR movement during the event window

Table 1 shows, our observed dates (-6,-3,-1 and +2, +4, +5, +6, +7, +8, +9, +14, and +15) have positive but statistically insignificant AARs. Investors did

not respond to the Sukuk issuance announcement and were not considered a positive signal of company information. To affirm CAR results, the study also examines cumulative market reaction measured by CAAR in Table 2. Table 2 shows CAAR in the market model, and CAAR in part of the market-adjusted model has a positive mean but insignificant statistical test. The issuance of Sukuk is still relatively small compared to the total outstanding bonds, the portion of only 6% from the total Sukuk and bond outstanding. Originators prefer bond products more in issuing their debts compared to Sukuk.

Table 1. The Significance Test of Average Abnormal Return

Event date	Market Model		Market-Adj. Return	
	AAR	t-stat.	AAR	t-stat.
T - 15	-0.310	0.143	-0.423	0.190
T - 14	-0.255	0.117	-0.307	0.138
T - 13	0.476	0.219	0.562	0.252
T - 12	0.300	0.138	0.225	0.101
T - 11	0.503	0.231	0.341	0.153
T - 10	-0.491	0.226	-0.529	0.237
T - 9	0.908	0.418	0.785	0.352
T - 8	-0.146	0.067	-0.229	0.103
T - 7	-0.102	0.047	-0.157	0.071
T - 6	0.277	0.128	0.373	0.167
T - 5	-0.218	0.100	-0.248	0.111
T - 4	-0.525	0.241	-0.498	0.223
T - 3	0.286	0.131	0.149	0.067
T - 2	-0.240	0.110	-0.187	0.084
T - 1	0.124	0.057	0.032	0.015
T + 1	-0.023	0.011	-0.044	0.020
T + 2	0.176	0.081	0.186	0.084
T + 3	-0.317	0.146	-0.345	0.155
T + 4	0.283	0.130	0.221	0.099
T + 5	0.323	0.148	0.246	0.111
T + 6	0.344	0.158	0.250	0.112



Is the Underlying Asset an Effective Source of Trust:

T + 7	0.054	0.025	0.018	0.008
T + 8	0.131	0.060	0.058	0.026
T + 9	0.412	0.189	0.296	0.133
T + 10	-0.369	0.170	-0.477	0.214
T + 11	0.051	0.024	0.111	0.050
T + 12	-0.882	0.406	-0.927	0.416
T + 13	-0.864	0.397	-0.832	0.373
T + 14	0.381	0.175	0.220	0.099
T + 15	0.478	0.220	0.501	0.225

This table report average abnormal return (AAR) and the significance value of AARs. *, **, *** denote significant at 10%, 5%, and 1% respectively.

Discussion

Sukuk issuance is the company's policy to add capital for investment activities or business expansion. Sukuk is an alternative financing for originators because it doesn't disturb the debt-based capital structure of the company. Sukuk issuance does not affect the screening ratio of sharia-based companies because it does not use interest instruments. Sukuk issuance uses the underlying asset as part of the requirements stipulated by Islamic teaching (Salah, 2014).

The assets used are company assets and not business assets financed through Sukuk ((Mohammad & Taft, 2014; Radzi & Lewis, 2015). The majority of Sukuk issuances in the world use asset-backed Sukuk because they are more flexible. Underlying assets are requirements that must be met by issuers when issuing Sukuk with any model. This study considers the market reaction of Sukuk issuance (Mahomed et al., 2018; Godlewski et al., 2013; Rahim & Ahmad, 2016;(Klein et al., 2018; Tang & Zhang, 2020; Khartabiel et al., 2020). The previous studies carried many results in various countries.



Table 2. The Significance Test of Cumulative Average Abnormal Return

Test period	Market Model		Market-Adj. Return	
	CAAR	t-stat.	CAAR	t-stat.
[-1, 1]	0.577	0.187	-0.133	0.042
[-2, 2]	0.590	0.136	-0.094	0.021
[-3, 3]	0.581	0.109	0.133	0.024
[-4, 4]	0.576	0.094	-0.106	0.017
[-5, 5]	0.658	0.096	-0.030	0.004
[-6, 6]	0.760	0.101	0.062	0.008
[-7, 7]	0.816	0.100	0.102	0.012
[-8, 8]	0.873	0.100	0.146	0.016
[-9, 9]	0.949	0.103	0.209	0.022
[-10, 10]	0.945	0.097	0.197	0.020
[-11, 11]	0.967	0.095	0.215	0.021
[-12, 12]	0.927	0.087	0.178	0.016
[-13, 13]	0.849	0.077	0.106	0.009
[-14, 14]	0.778	0.068	0.032	0.003
[-15, 15]	0.741	0.062	-0.005	0.000

This table report cumulative average abnormal return (CAAR) and the significance value of CAARs. *, **, *** denote significant at 10%, 5%, and 1% respectively.

In the 30-day observation, several days show the stock price is positive yet insignificant. In testing, through CAR and CAAR, the results show an average negative value. Sukuk issuance is still considered a debt policy, in general, that will burden the company and, in the long run, will reduce the profitability. The company's debt policy through Sukuk has been responded to negatively because it is predicted not to meet investors' expectations. A high level of debt will reduce the company's profitability. Other research shows that companies with high debt levels have a high risk, and investors tend to invest in these companies (Fajaria, 2018). This study is different from several studies that state a high level of debt shows good performance because it can benefit the future (Karima, 2016; Vijayakumaran & Vijayakumaran, 2019).



This study supports the previous research in which the Sukuk announcement was not responded to by the market; even other research shows a negative response (Ridwan & Barokah, 2022; Majdoub, 2021). Alam et al. (2013) showed a negative reaction to the announcement of the issuance of Sukuk. The negative reaction because the investors were not familiar with the Sukuk product, and the investors assumed the Sukuk issuing companies were had little debt and give little profits. (Almaskati, 2023) the issuance of bond tend to not liquid than conventional bond, and sukuk have high risk (Keshminder et al., 2022). The issuer Sukuk was bad financial conditions (Godlewski et al., 2013). Research with different results was conveyed by (Rahim & Ahmad, 2016), that the announcement of Sukuk was responded positively by the market because investors were attracted to Islamic financial instruments and the increasing demand for Islamic finance.

Underlying assets under the sharia mechanism aim to assure that the Sukuk issued are pledged to the part of the originator's assets. The guarantee is created to provide confidence and certainty for funds invested through Sukuk. The collateral asset management is carried out by a body appointed by the Sukuk originator called SPV, which is part of the originator itself. In practice, the guarantee of these assets is not distributed physically to investors. Investors do not own and hold ownership of these assets, and the guarantee of Sukuk issuance happens as a formality (Armen et al., 2023; Habib, 2018; McMillen, 2013). Another opinion states that the collateral asset for the issuance of Sukuk is the real business asset financed by Sukuk. This view states that the pledged assets must be real, and the compensation was given also emanates from real business activities financed by Sukuk.

The majority of asset-based Sukuk issuance contradicts Islamic law in agreement to repurchase the asset after maturity. Besides, the promised compensation will be given is not based on the productivity of real assets financed by the Sukuk; instead, the compensation stems from the unrelated project of the issued Sukuk (Usmani, 2007). As many as 85% of Sukuk issuance in the Middle East use asset-based Sukuk so that its issuance is considered as not in compliance with Islamic law principles (Usmani, 2007). The majority of Sukuk issuances in Indonesia use asset-based Sukuk, which indicates that the guarantee on the underlying asset is a formality guarantee and no real asset transfer to investors. This condition makes investors feel unsafe if there is a company default



(Abdulkareem et al., 2022). The level of public trust in the Sukuk instrument decreases as the investors perceive Sukuk as an obligation. This perception is supported with the insignificant reaction on all observed variables where each of them shows a decline in the share price of the Sukuk originators.

Underlying assets in the issuance of Sukuk can be identified as fulfilling Sharia compliance requirements and as a backing for the issuance of Sukuk (Radzi, 2018). Sukuk issuance in Indonesia places the underlying assets as a formal requirement of Sharia criteria rather than as a real backing. Underlying assets that are guaranteed in the issuance of Sukuk may include all assets owned by the company. Sukuk compensation does not only come from the productivity of the pledged assets but also the productivity of all company assets. The practice of issuing Sukuk in some countries is not following Sharia even though it is casuistic, requiring individual scrutiny (Qin, 2014).

The majority of Sukuk issuances in Indonesia and the world use the ijarah scheme to provide returns to investors (OJK, Syariah, 2021). 48% of Sukuk issuances in the world use the ijarah scheme (Razak et al., 2018; Laila et al., 2021). A fixed-rate of return is considered to be the interest on a bond. Payments with fixed yields make investors receive the same number of payments in each period even though the issuer gets a higher rental price than agreed upon. This condition is considered unfair for investors (Qin, 2014; Abdulkareem et al., 2022) the payment has the same characteristics as bonds (Zulhibri, 2015; Hossain et al., 2021). Sukuk policies that do not use an interest system are considered not contrary to Islamic teachings and are not calculated at a ratio limit of 45:55 or exceeding 0.9 of total assets. On the other hand, the issuance of sukuk is like bonds, namely by providing compensation and returning the amount of investment and this is a burden on the company. Sukuk and bonds are burdens for companies in different forms but have the same consequences.

The contribution this research shows the characteristics of Sukuk in Indonesia are considered like bonds in general, and the market does not respond significantly. Underlying assets are still not considered a guarantee that can give investors a sense of security for their investment in Sukuk because they are considered a formality.



CONCLUSION

The market reaction test result shows that the market reacted insignificant during the 30 days observation. These results indicate that the Sukuk issuance did not meet investors' expectations. The guarantee that does not provide physical collateral to investors shows that investors do not feel secure on this formal pledge. Therefore, Sukuk issuance is considered similar to bonds and other debt instruments that can increase company risk and reduce investors' profitability.

The underlying assets have not yet been able to provide guarantees for investors in Sukuk investments. The Sukuk concept and implementation need to be fundamentally revised, and it does not become a formality for the Sukuk issuance. Further research can be carried out by comparing the issuance of Sukuk in various countries. This comparison is necessary to see the response of investors to the issuance of Sukuk in various countries.



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