PRACTITIONER COMMENTARY | DEBT CAPITAL MARKETS | PETERSON FREDERICK

THE STRUCTURAL PARADOX OF STRUCTURED FINANCE

Operational Realities That Undermine SPV Architecture

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ABSTRACT

The SPV is one of the most widely used instruments in global debt capital markets — and one of the least scrutinised at the level of how it actually operates. This paper argues that the infrastructure surrounding SPVs has developed a set of structural vulnerabilities that market practice has normalised, rating criteria have not priced, and regulation has not reached: vulnerabilities that, in a stress scenario, can convert an operational failure at a corporate administrator into a credit event for investors who assumed they held bankruptcy-remote paper.

Special Purpose Vehicles (SPVs) form the structural backbone of global debt capital markets, supporting securitisation, private credit, and structured note issuance across multiple jurisdictions. Designed to isolate financial risk, segregate collateral, and enforce bankruptcy remoteness, SPVs rest on a foundational assumption: that legal non-consolidation produces operational autonomy.

In market reality, this assumption does not hold.

SPVs are intentionally hollow entities — no employees, no systems, no internal legal function. Their operational existence is mediated entirely through Corporate Service Providers (CSPs), a small, identifiable cluster of firms that perform governance, administration, and execution across thousands of issuers.

This commentary argues that SPV governance, as commonly structured for UK quoted Eurobonds and comparable listed debt structures, is compromised by five distinct structural issues:

- **CSP Market Concentration** — a small cluster of large administrators dominates UK and European SPV administration, reducing competitive discipline, limiting genuine alternatives, and creating a market-wide monoculture risk.
- **The Bankruptcy-Remote Paradox** — SPVs are legally insulated from originator credit risk but remain operationally exposed to the failure of a CSP administrator that is not itself bankruptcy-remote.
- **The Regulatory Vacuum** — CSPs sit largely outside prudential oversight despite administering vehicles that issue securities to public and institutional investors, a gap sustained in part by the market's own informal norms.
- **Employee-Director Governance Compromise** — CSPs routinely appoint their own salaried employees as nominally independent directors, creating structural conflicts that rating agency criteria alone cannot resolve.
- **Control Pathway Dependence** — even a genuinely independent director may be operationally powerless, because the CSP controls the systems, records, and execution channels on which any board decision depends.

To address these five issues, this paper proposes a **Unified Three-Pillar Reform Architecture**: a bankruptcy-remote Administrative Agent model, professional-services-style regulation of CSPs, and a governance standard built around genuinely independent directors. Each reform is designed to resolve multiple issues simultaneously — not as a coincidence of drafting, but because the issues themselves share a common structural root.

Who Should Read This and How

FOR ARRANGERS & TRUSTEES

Read this paper as a risk-identification guide and operational exercise. It exposes latent operational dependencies that are often overlooked during deal structuring. While the Administrative Agent (AA) proposal warrants evaluation for complex or high-value transactions, the paper's diagnoses should be treated as a framework for stress-testing transaction mechanics rather than settled market failure.

FOR INSTITUTIONAL INVESTORS

Use this commentary as a due-diligence checklist. It highlights critical questions to ask arrangers during primary issuance regarding CSP concentration, back-up administration mechanics, and genuine director independence. It should not, however, be interpreted as proof that these operational risks are actively causing systemic defaults across current portfolios.

FOR REGULATORS & POLICYMAKERS

Consider this paper a spotlight on a potential perimeter gap. It identifies how corporate service providers sit outside prudential oversight while performing critical execution roles. However, regulatory intervention or rule-making would require formal empirical data and market-wide impact studies, rather than practitioner observation alone.

FOR ACADEMICS & RESEARCHERS

Treat this document as a rich source of testable hypotheses. The paper's claims regarding administrator market concentration, governance capture, and pricing inefficiencies offer clear opportunities for empirical research using deal prospectus sampling and empirical credit spread analysis.

Scope, Evidence, and Market Transparency

This paper focuses on UK-regulated debt securities — specifically debt securities carrying a right to interest that constitute 'quoted Eurobonds' within the meaning of section 987 of the Income Tax Act 2007, by virtue of being listed on a 'recognised stock exchange' (section 1005, ITA 2007) or admitted to trading on a multilateral trading facility operated by such an exchange — and comparable European cross-border SPV frameworks.

This lack of public reporting is not a research limitation; it is a structural feature of the market. CSPs operate critical financial infrastructure without being required to disclose the administration-specific concentration metrics that would be routine for a bank, trustee, or custodian — an opacity that itself reinforces the regulatory vacuum. This is examined further in Pillar II.

Where this paper describes market concentration, it does so qualitatively. Industry-wide investor communications and public corporate disclosures consistently depict a recognisable tier of globally active institutional CSPs operating in the segment most relevant to UK quoted-Eurobond SPV administration. In this author's experience structuring cross-border asset-backed transactions, four providers account for the majority of UK quoted-Eurobond SPV administration; that observation is offered as practitioner judgement, not as a market-share statistic, since no published dataset exists to convert it into one. Pillar II proposes a public CSP registry that would close precisely this gap.

Pillar I — CSP Market Concentration & The Bankruptcy-Remote Paradox

This pillar addresses two distinct issues that are frequently discussed as one. They are related but not the same problem, they cause different harms, and it matters that both are named separately — not least because, as set out below, a single structural reform resolves both.

Issue One: CSP Market Concentration

The administration of a large number of SPVs — including UK quoted-Eurobond issuers — is concentrated among a comparatively small number of CSPs. This is a market-wide condition: it exists independently of any single transaction, and it would exist even if every SPV were, individually, perfectly structured.

Concentration of this kind is a problem in its own right, separate from what it does to any one issuer. A small pool of large, generalist providers reduces the competitive discipline that would otherwise constrain pricing and service quality; it leaves issuers and arrangers with limited genuine alternatives when negotiating terms; and it creates a market-wide monoculture risk — a cyber incident, insolvency, or regulatory action affecting one major provider has the potential to disrupt operations across many unrelated issuers simultaneously, not merely the SPVs administered by that one firm. As noted above, no public mechanism exists to monitor or benchmark the degree of this concentration, which is itself a symptom of the regulatory vacuum discussed in Pillar II.

Issue Two: The Bankruptcy-Remote Paradox

Legal non-consolidation opinions confirm that SPVs are bankruptcy-remote from originators, arrangers, and swap counterparties. This second issue exists at the level of a single SPV, and would exist even in a hypothetical, unconcentrated market with dozens of equally-sized CSPs: an SPV's operational continuity depends on a CSP administrator that is not itself bankruptcy-remote. A CSP outage — whether caused by a cyber incident, a regulatory intervention, insolvency, or simple operational failure — has the potential to immobilise the SPV it administers. The SPV is legally insulated from the credit risk of its originators and counterparties, but is not insulated from the operational risk of the single administrator on which its entire functioning depends.

This is not, in most modern structures, simply a story of payments stopping: standard transaction documentation typically empowers the Paying Agent, the Trustee, and the Custodian, as applicable, to act independently of the Issuer and its administrator on core mechanical functions. The sharper version of the problem is this: an operational outage at a CSP may freeze or delay governance-critical execution — instructions, amendments, waivers, and notices that require a functioning board, and payment execution itself in less automated structures — and where a grace period runs during that paralysis, the result can be a credit Event of Default on the underlying notes that has nothing to do with the performance of the underlying collateral.

The deeper vulnerability sits one level below formal authority, in data dependency. Even where a Paying Agent or Trustee is fully empowered to act without the CSP's involvement, it may not be able to do so safely without the CSP's operational data feed — the waterfall calculations, cash reconciliation reports, and compliance certificates the CSP produces. In many structures, the Trustee is not responsible for independently generating the underlying operational data before default and instead relies on certificates, reports and other information supplied by the Issuer, servicer and/or administrator to know whether anything is even wrong. A CSP outage does not just delay execution; it removes the information a Trustee would need to distinguish an administrative glitch from genuine credit deterioration, which is what can push a cautious Trustee toward declaring a default defensively rather than risk being seen to have sat on one.

This paper's diagnosis, drawn from practice rather than theory, is that this dependency is not merely a descriptive fact about SPV administration: it is the mechanism that converts an operational failure at the administrator into a potential credit event for the notes — and neither rating criteria nor current disclosure practice has caught up with it.

Illustrative Operational Contagion Scenario

> The following is offered as an illustrative scenario, not a report of an actual event, to show how an administrator disruption could plausibly propagate through a standard note structure.
>
> - **Days 1–2 — Instruction & Waterfall Freeze:** calculations and instructions requiring board or administrator input stall; in less automated structures, payment instructions are delayed.
> - **Days 3–5 — Notice & Compliance Failure:** mandatory investor notices are delayed; grace periods under the transaction documents begin to run.
> - **Day 7 and beyond — Restructuring & Litigation Paralysis:** the trustee cannot be instructed because the board cannot convene or resolve; amendments cannot be executed; independent counsel cannot be retained without board authority.
>
> Depending on the applicable indenture or note trust deed, failure to make a required payment following expiry of an applicable grace period may constitute an Event of Default — meaning a purely operational failure at the administrator can crystallise as a credit event for the notes, regardless of the performance of the underlying collateral. That mismatch, operational paralysis capable of being misclassified as credit impairment, is a risk this paper argues is currently unpriced.

Proposed Reform: A Bankruptcy-Remote Administrative Agent

The most direct response is not to regulate around the administrator, but to remove it as a structural chokepoint altogether. This paper proposes interposing a segregated, bankruptcy-remote Administrative Agent ('AA') between the Issuer and its CSPs — an entity structured along materially the same lines as the SPV itself: ring-fenced assets, insolvency-remote mechanics, and independent governance.

- All corporate services flow through the AA, not directly through a CSP selected by the arranger.

- The AA appoints one or more CSPs to carry out the underlying administrative work, and may replace any of them at will if performance, solvency, or independence concerns arise.
- Because the AA — not the CSP — is bankruptcy-remote, a CSP's insolvency, cyber incident, or regulatory sanction no longer threatens the Issuer's operational continuity: the AA simply appoints a replacement.
- CSPs become interchangeable vendors to the AA rather than structural chokepoints for the Issuer, restoring the independence the SPV structure was designed to have.

This single structural fix resolves both issues identified above, not merely the second. It addresses Issue One, market concentration, by breaking vendor lock-in: CSPs compete to be appointed and retained by the AA on an ongoing basis, restoring the competitive discipline that concentration currently removes, even though the underlying pool of large providers does not itself shrink. It addresses Issue Two, the bankruptcy-remote paradox, directly: because the AA rather than any single CSP is bankruptcy-remote, the Issuer's operational continuity depends on the AA's solvency, not the administrator's.

The result is a two-layer bankruptcy-remote architecture — the Issuer SPV and the Administrative Agent SPV — addressing a market-level problem and a transaction-level problem with a single piece of structural architecture.

Pending broader adoption of an AA structure, interim mitigants — a defined back-up administration step-in period, investor-level concentration caps on exposure to any single CSP, and rating agency criteria that reflect CSP concentration — can reduce both issues without eliminating either.

On the paradox specifically, the AA also resolves the credit-misclassification risk described above: because operational continuity no longer depends on the solvency of a single CSP, an administrator-level disruption can no longer, by itself, crystallise as an Event of Default for the notes.

Pillar II — The Regulatory Vacuum in Shadow

Infrastructure

This pillar examines a single structural issue — the regulatory vacuum surrounding CSPs — from two angles: first, the formal gap in the statutory and prudential perimeter; second, the behavioural consequence that gap produces in practice.

Structural Contradiction & Perimeter Gap

Banks, trustees, collateral managers, and custodians operate under prudential regimes — capital requirements, conduct rules, and, in the UK, regimes such as the Senior Managers Regime. CSPs administering the same transactions do not.

In the UK, trust and company service providers carrying on regulated activities are supervised for anti-money laundering compliance by either HMRC or an appropriate professional body under the Money Laundering Regulations 2017. Those that register as Authorised Corporate Service Providers (ACSPs) are additionally subject to the Companies House authorization and oversight regime established under the Economic Crime and Corporate Transparency Act 2023. That regime is intended to improve the integrity of the Companies House register through identity verification, enhanced transparency, and the mitigation of money-laundering, economic-crime, and beneficial-ownership risks. It does not impose:

- capital adequacy requirements
- liquidity reserve mandates
- operational or cyber-resilience testing
- a general statutory duty of care to secured noteholders

This is a genuine perimeter gap: a firm can sit at the operational centre of vehicles issuing securities to public and institutional investors while being regulated only for the money-laundering risk of its client relationships.

The contrast is visible even within existing exchange infrastructure: Euronext Dublin, for example, maintains a public register of appointed listing agents, but no exchange mandates disclosure of the CSPs administering an SPV's ongoing governance, cash management, and reporting — entities that sit operationally closer to the issuer than a listing agent ever does.

Fiduciary Impossibility & Waterfall Distortion

The diagnosis here is not that CSPs act in bad faith, but that the structure gives them no reason to act otherwise: with no regulator positioned to discipline a governance failure short of an AML breach, and no professional accountability comparable to a solicitor's or an accountant's, good conduct during a distress event depends entirely on individual goodwill rather than institutional design.

Because CSPs are treated in practice as administrative vendors rather than systemic infrastructure:

- no regulator is positioned to discipline a CSP for a governance failure that falls short of an AML breach
- administrators facing a dispute may reasonably prioritise their own indemnification position over waterfall execution
- commercial relationships between arrangers and administrators can distort governance in a distress scenario
- execution delay, even where ultimately resolved, erodes recovery value

Accordingly, no regulator is charged with supervising whether:

- a securitisation waterfall was implemented correctly;
- an SPV administrator interpreted a priority of payments appropriately;
- a restructuring instruction should have been executed sooner;
- noteholder directions were handled optimally;
- a consent request was processed efficiently;
- an enforcement process was managed in the best interests of investors.

This vacuum has also persisted, in part, because structured finance has historically been shaped by an insular, self-referential culture — at times described within the market itself as an ‘old boys’ club’ — that has resisted external scrutiny. In such an environment, a narrow set of self-appointed gatekeepers has effectively defined ‘market practice’ on CSP governance, even where that practice has no regulatory grounding and would not survive contact with a formal supervisory standard. The absence of oversight is not simply an omission; it has been actively sustained by the market’s own informal norms.

Proposed Reform: A Professional-Services Regulatory Model

The more precise fix is not a bespoke prudential perimeter borrowed from banking regulation, but supervision modelled on the professions CSPs most functionally resemble: law firms and accountancy firms. Both sectors combine anti-money-laundering (AML) supervision, mandatory professional indemnity insurance (PII), and oversight by a professional body supervisor (PBS), and both operate under dual obligations — firm-level compliance alongside individual professional accountability. CSPs perform functions of the same character — KYC, beneficial-ownership verification, document execution, governance administration — without carrying the same accountability.

- AML supervision, already partially present under the UK’s Trust or Company Service Provider regime, made consistent in substance across jurisdictions.
- Mandatory professional indemnity insurance, scaled to the CSP’s risk profile and the scale of the transactions it administers.
- Oversight by a professional body supervisor, with conduct, competence, and disciplinary standards equivalent to those governing solicitors and accountants.
- Dual accountability: firm-level compliance obligations alongside individual professional accountability for the staff administering a given SPV.
- A proportionate, lighter-touch regime for genuinely exempt, non-public transactions, preserving efficiency where the risk profile is lower.
- Public registries recording CSP registration, PII coverage, and disciplinary history,

together with cross-border supervisory coordination to limit regulatory arbitrage.

Such a registry is, notably, exactly the dataset whose absence this paper noted in setting its evidentiary scope: this reform would close that gap directly, not merely work around it.

Structured finance was built on the principle that risk should be identified, measured, and allocated. Yet one of its most consequential dependencies remains hidden in plain sight. The market has spent decades perfecting bankruptcy-remoteness, true-sale analysis, orphan-entity structures, limited-recourse and non-petition protections, priority-of-payments provisions, and increasingly sophisticated cash-flow modelling, while largely overlooking the organisations that ultimately operate the machinery. If an operational failure at an administrator can impair investor outcomes, then the greatest unresolved risk in structured finance may not reside in the collateral, the counterparty, or the legal structure at all. It may reside in the infrastructure connecting them.

Pillar III — Employee-Director Governance Compromise & Control Pathway Dependence

As with Pillar I, this pillar addresses two distinct issues rather than one. A director freed of the first problem is not thereby freed of the second: a genuinely independent, unconflicted director can still be operationally powerless, and a technically empowered director can still be conflicted. Both persist independently, and both, as set out below, are resolved by the same governance reform.

Issue One: Employee-Director Governance Compromise

SPV structures typically require ‘independent directors’ to satisfy rating agency criteria and insolvency safe-harbour tests — a requirement reflected, for example, in S&P Global Ratings' *Asset Isolation And Special-Purpose Entity Methodology*, which identifies the presence of one or more independent directors on the governing board of a special-purpose entity as a factor supporting its assessed insolvency remoteness. In practice, it remains common for CSPs to appoint their own salaried employees to these roles — a structural surrogacy sustained by the commercial relationship between the CSP and the arranger who selected it, and by a market that has historically treated this practice as unremarkable rather than as the conflict it is.

The relevant Delaware authority, *North American Catholic Educational Programming Foundation, Inc. v. Gheewalla*, 930 A.2d 92 (Del. 2007), is often invoked loosely in this context, so it is worth stating precisely what it holds. Gheewalla confirms that directors owe their fiduciary duties to the corporation itself, not directly to its creditors, even where the company is insolvent or in the zone of insolvency. What changes on insolvency is standing, not the duty itself: creditors gain the ability to bring derivative claims on the corporation's behalf for breach of the director's existing duty to the company. The practical point for SPV governance is narrower than 'duties shift to creditors', but no less real: a salaried CSP employee sitting as a derivative-claim defendant, over conduct that may implicate their own employer's administration of the vehicle, is not well placed to discharge that duty impartially.

The Cayman Islands courts have addressed a closely related problem directly. In *Weavering Macro Fixed Income Fund Ltd v Peterson* [2011] (Grand Court of the Cayman Islands), the court found that nominally independent directors of an investment fund had failed to exercise independent judgement, treating board approval as a formality rather than a substantive check — precisely the structural surrogacy risk this paper describes in the SPV context.

Issue Two: Control Pathway Dependence

This issue has two layers, and both matter. The first is pure operational isolation, which persists whether or not Issue One is present: even a genuinely independent director, entirely free of any employment relationship with the CSP, may lack the practical means to act, because in the typical structure:

- the CSP controls the cash account signatories and payment mechanics
- the CSP controls the trustee reporting portal
- the CSP controls the channel through which corporate notices are issued

The second layer is more subtle, and follows directly from Issue One. Modern transaction documentation typically does give the board formal authority to act on many matters independently of the CSP, subject in appropriate cases to the approval of the note trustee — in substance, the approval of noteholders. But a director who is not truly independent has little incentive to invoke that authority against the interests of the CSP that employs them. The pathway to act exists on paper; a compromised director will rarely be the one to walk it. The result is that documented noteholder protections remain dormant—not because the legal machinery is deficient, but because the director expected to enforce it is the wrong person to ask.

Even setting motivation aside, the trustee- or noteholder-consent route is itself slow and procedurally heavy — formal notices, defined voting thresholds, and a process typically measured in weeks rather than days. A conflicted board has no reason to initiate that machinery proactively, and its absence of urgency is easy to mistake for prudence rather than what it is: a second, compounding barrier layered on top of the first.

Director independence without operational access, and operational access without genuine independence, are on this view two faces of the same problem: the board can resolve to act, and in some cases has a clear documentary path to do so, but neither an unconflicted director's lack of access nor a conflicted director's lack of will can be relied upon, alone, to protect noteholders in practice.

Proposed Reform: Independent Governance with Operational Teeth

Independence on paper is not sufficient; it must be operationally exercisable under real transaction conditions. The reform must also give directors the operational means to act on it, and must be integrated with the Administrative Agent structure proposed in Pillar I rather than left to stand alone.

- A strict prohibition on any employee, officer, contractor, or material commercial counterparty of a CSP serving as a director of an SPV that CSP administers.

- Explicit, contractual authority for the independent board to assess CSP performance and to direct the Administrative Agent to replace an underperforming or compromised CSP without further consent.
- Direct, unmediated, read-only access for directors to bank and trustee reporting systems, reinforced by data escrow of critical records, credentials, and documentation with the AA or a neutral custodian, so that governance decisions can be executed rather than merely resolved.
- Pre-funded board liquidity reserves under the board's exclusive control, sized to cover a defined period of independent professional advice, calibrated to deal size.
- Minimum standards of professional competence and diversity in director appointments, to guard against the sector's historical insularity and the risk of governance capture by a narrow, established network of practitioners.

This single reform resolves both issues identified above. It addresses Issue One directly: a person who is not the CSP's employee, officer, contractor, or material counterparty cannot sit as a derivative-claim defendant over their own employer's conduct, because the conflict no longer exists. It addresses Issue Two on both layers: direct systems access and data escrow solve the pure operational-isolation layer, while removing the employment conflict is what makes the documentary trustee-approval pathway usable in practice — the director now asked to invoke it is no longer the wrong person to ask. Read together with Pillar I, this makes independence operative rather than nominal: the board's authority runs through the AA, not through the goodwill of the CSP it is meant to oversee.

Unified Three-Pillar Reform Architecture

Pillar	Structural Target	Illustrative Implementation Mechanism

Pillar	Structural Target	Illustrative Implementation Mechanism
Operational Resilience	CSP concentration & the bankruptcy-remote paradox	Segregated, bankruptcy-remote Administrative Agent (AA) that appoints and can replace CSPs; interim back-up-administration step-in period and CSP concentration caps pending AA adoption
Prudential Oversight	The regulatory perimeter gap	Professional-services regulatory model (AML, mandatory PII, professional body supervision) with dual firm/individual accountability, exempt-transaction proportionality, and public CSP registries
Governance Independence	Cultural capture & pathway monopoly	Prohibition on CSP employee-directors; explicit authority to direct CSP replacement via the AA; direct portal access with data escrow; pre-funded liquidity reserve; competence and diversity standards

Systemic Vulnerability Matrix

Vulnerability Vector	Structural Mechanics & Market Failure	Credit & Operational Outcome
Regulatory Vacuum	CSPs providing UK trust and company services are supervised for anti-money-laundering purposes only. They carry no capital	Regulatory inertia, uncapitalised operational infrastructure, and no

Vulnerability Vector	Structural Mechanics & Market Failure	Credit & Operational Outcome
	requirements and owe no general statutory duty of care to secured noteholders.	clear escalation path to a prudential regulator during distress.
Market Concentration	A recognisable, moderately concentrated cluster of large generalist providers administers a disproportionate share of UK and European quoted-Eurobond SPVs, with no public mechanism to verify or monitor the degree of concentration.	A single provider's outage or failure risks simultaneous operational disruption across many unrelated issuers.
Cultural Capture	It remains common market practice for CSPs to appoint their own salaried employees as "independent" directors of the SPVs they administer, sustained by bilateral arranger–administrator relationships.	Structural surrogacy, information asymmetry between board and administrator, and governance paralysis during restructuring.

Illustrative Drafting

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Model Indenture Covenant — Section 4.18
Independent Board Autonomy and Operational Continuity

(a) No Independent Director shall be an employee, officer, or salaried affiliate
of the Corporate Services Provider.

(b) The Issuer shall maintain a segregated Reserve Account, in an amount to be
agreed between the parties having regard to the scale and complexity of the
transaction, under the sole authority of the Independent Board.

(c) If the Corporate Services Provider suffers an Operational Disturbance, an
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Insolvency Event, or a Regulatory Sanction causing an execution delay in excess
of 48 hours, the Independent Board may activate the Back-Up CSP Administrator
without further consent.
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Illustrative drafting for discussion, not executed transaction language; figures and thresholds require calibration and legal review for any specific issuance.

Transaction placement note: in a standard deal architecture, provisions (a) and (b) above would typically sit in the AA Agreement between the Issuer and the Administrative Agent, with (b) reflected in the cash management agreement and priority of payments; provision (c) would be incorporated by reference into the Note Trust Deed or Indenture as a permitted action of the Independent Board, ensuring the right to activate the Back-Up CSP Administrator is enforceable against all transaction parties.

Implementation Roadmap

The reforms proposed here are intended to be adopted incrementally, not imposed at once.

1. **Pilot AA Structures:** Deploy in new transactions, using early deployments to refine standard contracts, transition playbooks, and data-escrow mechanics before wider market adoption.
2. **Model Governance Code:** Developed with industry bodies, trustees, and investor groups, codifying director independence criteria, appointment and removal mechanics, and access rights.
3. **Regulatory Engagement:** Work with AML, corporate, and financial regulators to design a proportionate professional-services supervisory regime for CSPs, including PII minimums and exempt-transaction criteria.
4. **Standardisation:** Establish standardised data schemas, escrow formats, and handover protocols to make CSP transitions routine rather than exceptional.
5. **Insurance & Liability Frameworks:** Require CSPs and the AA to carry PII and operational-resilience cover, with appropriate indemnities for independent directors.

6. **Transparency & Disclosure:** Establish public registries of CSPs and disciplinary history, alongside transaction-level disclosure of AA/CSP arrangements to investors.

Anticipated Objections and Responses

Objection	Response
This adds cost and complexity, undermining the efficiency that makes SPVs useful.	The reforms concentrate complexity in a single, resilient layer rather than dispersing risk across an opaque market; proportionate treatment of exempt transactions preserves efficiency exactly where the risk is genuinely low.
Regulation will simply drive CSPs toward lighter-touch jurisdictions.	Cross-border supervisory coordination and public registries make regulatory arbitrage harder to conceal, and investor demand for resilient structures creates a market incentive that arbitrage alone cannot outrun.
Genuinely independent directors will be difficult and expensive to recruit.	The absence of appropriate indemnities, PII cover, and real authority is what currently deters qualified candidates from the role; a market that credibly rewards independence should expect the supply of it to follow.
An additional SPV layer adds legal complexity for its own sake.	The AA is a deliberate, once-built investment that removes a recurring point of failure; its marginal complexity is offset by standardised documentation and the systemic risk it removes.
Doesn’t the Administrative Agent simply relocate the concentration and bankruptcy-	The AA’s function is deliberately narrower than a CSP’s — appointing and replacing vendors rather than performing administration itself — which keeps

Objection	Response
remoteness problem to a new layer rather than solving it?	barriers to entry, and switching cost, materially lower at that layer than in the full-service CSP market it replaces.

Conclusion

The structural integrity of debt capital markets rests on a critical but largely untested assumption: that SPVs function as genuinely autonomous, bankruptcy-remote entities in practice, not merely in legal form. On the evidence available — a concentrated and largely unmonitored administrator market, a regulatory perimeter that stops short of the entities actually running these vehicles, and a governance model that routinely blurs the line between administrator and director — that assumption is, at minimum, unpriced risk.

The reforms proposed here are not a case against the SPV as a legal technology; SPVs remain an efficient and necessary tool for isolating risk and preserving tax neutrality. The case is narrower, and, this paper argues, more urgent: the infrastructure surrounding SPVs has not kept pace with the assumptions the market continues to make about it. Restoring operational resilience, prudential oversight, and genuine governance independence is achievable without dismantling the SPV model — a market design problem, not a theoretical one, and one that is overdue.

For market participants who do not wish to wait for regulatory reform, the practical implications are immediate. Arrangers can require AA structures and genuine director independence as deal terms rather than treating administrator selection as a bilateral arranger–CSP decision. Trustees can make CSP resilience and data-escrow arrangements part of their ongoing monitoring rather than assuming the SPV's legal structure protects them from operational risk. Rating agencies can introduce CSP concentration and back-up administration adequacy as explicit criteria rather than treating operational continuity as outside the credit analysis. None of these steps requires legislation. All of them would reduce the gap between what the market assumes about SPV governance and what the evidence supports.

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About Peterson Frederick

Peterson Frederick is Chairman and Interim CEO of Northern Providence Investments (NPI), a Montreal-based asset management firm specialising in socially responsible investing (SRI) for institutional investors. His practice centres on bespoke, non-securitisation private credit and ABS structures — bankruptcy-remote SPVs, limited-recourse facilities, and ESG-integrated frameworks — aiming to deliver resilient, predictable yields tailored for Tier-1 pension funds and insurers across UK/EU markets. Broken Structured Finance: Where We Keep Getting It Wrong is his ongoing series examining the governance and market assumptions structured finance treats as settled — how embedded market architecture, administrative design, and institutional practice shape who gets access and on what terms.

He holds double Bachelor of Science degrees in Mathematics and Economics from Concordia University, double undergraduate certificates in Risk Management and Public Relations Management from McGill University, and a graduate diploma in Treasury Finance, also from McGill University. He holds a Master of Business Administration (MBA) with a concentration in Corporate Finance from HEC Montreal and obtained a Certified Risk Manager (CRM) designation from the Global Risk Management Institute in 2005. Further details are available at petersonfrederick.com.

Comments & Peer Feedback

I welcome thoughts, counter-perspectives, and practitioner feedback on the arguments advanced in this article.

Feedback, counter-perspectives, and practitioner observations are welcome via the Contact Form on petersonfrederick.com or directly at peterson@petersonfrederick.com.

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