Sukuk Rating, the Involvement of Agency Theory

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A sukuk rating indicates the issuer's capacity to meet its long-term financial commitments under the syariah financing contract. Some sukuk have a high rating, but experience default a couple of years after their issuance. This study aims to determine the effect of the mechanisms of good corporate governance, income smoothing, and corporate performance on sukuk rating. The method is a quantitative research method by analysing causal relationships using panel data analysis that uses logistic regression to examine the mechanisms of good corporate governance, income smoothing, and corporate performance on sukuk ratings. Good corporate governance mechanisms in this study are proxied by board of commissioners, institutional ownership, and the audit committee. This research was conducted in 2018-2019 by taking data from the financial statements from years 2015 to 2018 of each sukuk issuing company and other data from the Indonesia Stock Exchange. The result indicates that the audit committee has a positive significant effect on sukuk ratings, while the board of commissioners, institutional ownership, income smoothing, profitability, and assets growth have no significant effect on sukuk ratings. This finding can lead to the understanding that internal company indicators are not the only factors that influence sukuk ratings. This study only covers sukuk issuance in Indonesia, and the rating agency is only one company. There is no comparison with sukuk issues abroad. The paper seeks evidence of sukuk rating as its consequence of agency theory as a whole.

Key words: *good corporate governance, income smoothing, profitability, asset growth, Sukuk rating.*

JEL code: M14, M15, M40, M41

Introduction

Sharia-compliant financial instruments in the capital market with a very rapid growth rate, namely sukuk or Islamic bonds, have become an alternative source of corporate and government funding, as well as investment alternatives. International Shariah Research Academy for Islamic Finance /ISRA (2015) define sukuk as an investment certificate (proof of ownership) of a tangible asset or beneficial title that becomes its underlying asset, rather than an obligation as in conventional bonds. Sukuk is a rated capital market financial instrument, so issuers and investors can measure the level of investment returns and risks. Compared to the issuance of bonds, the cost of funds of sukuk issuance is high due to their complexity, but this high cost can be reduced by the increase in sukuk ratings. Sukuk as a long-term financial instrument also has a risk of default, as bonds do (Melzatia, Nurhasanah, & Indriawati, 2017). Sukuk structure is not only based on tangible assets, but also on debt, business, and investment, so many accept the need to assess sukuk as conventional bonds (Mseddi & Naifar, 2013).

One sukuk issuer is PT Berlian Laju Tanker (BLTA), which since 1990 has listed its shares on the Indonesia Stock Exchange (IDX) and even traded on the Singapore Stock Exchange (SGX) in 2006. In 2012, the company declared a debt standstill and received a process of debt moratorium (PKPU). Even BEI and SGX suspended BLTA shares. Since the end of 2010, BLTA's financial performance has declined. The value of its income dropped from US $656.85 million at the end of 2010 to US $452.79 million at the end of 2012. In that period, the company also suffered losses that rose from US $154.4 million at the end of 2010 to US $719.39 million at the end 2012. The company's rating also continued to decline during the period, including rating instruments, from idAA- to idD. Now, even though its income dropped to US $8.54 million at the end of June 2016, BLTA's bottom line has improved. In this period, the company's loss was US $5.24 million. Improved financial performance was also marked by debt restructuring through conversion to shares, even though trading in the company's shares had not been reopened. Whether the sukuk rating does not reflect the company's performance and whether the internal factors of the company are causing the ups and downs of the sukuk rating invite inquiry.

A sukuk rating is an evaluation of bond and sukuk rating agencies for qualitative and quantitative information on the creditworthiness of a company or government based on its ability to repay debt and the possibility of default. On the other hand, the influence of credit ratings on company policy choices is important for understanding the determinants of corporate decision-making. It is also an important determinant of corporate governance decisions (Bereskin, Kim, Oh, & Al., 2015). According to Bradley *et al.* (2011), the practice of good corporate governance can explain the differences in corporate bond ratings that are not captured by the company's financial condition. Companies with increased institutional

ownership and audit committees are predicted to have bonds with higher rankings. This is because monitoring carried out by institutional investors and audit committees is quite optimal and effective for a company because it will increase the company's bond rating (Marfuah & Endaryati, 2016). In practice, for public appraisal that includes investors and rating agencies, management looks for loopholes of predetermined standards for profit engineering or earnings management in the presentation of financial statements. Good corporate governance can protect investors from deviant corporate management.

Based on this background, this study aims to provide a comprehensive model that investigates factors that influence sukuk rating, particularly the internal factors of companies. The objective of this paper is to analyse the significant relationship between boards of commissioners, institutional ownership, audit committee, income smoothing, profitability, and asset growth with sukuk rating. From a theoretical perspective, the results of this study are expected to provide valuable contributions to the fields of accounting and Islamic finance, specifically to research about the development of the whole community. From a practical point of view, the results are expected to be helpful for companies and investors that deal with sukuk investment in Indonesia.

Literature Review

A shakk is a paper or a note on which there is an order from someone to pay a certain amount of money to another person whose name is also on the paper. AAOFI defines sukuk as a certificate of equal value that is proof of ownership shared on an asset, benefit rights, and services, or ownership of a particular investment project or activity. The fatwa of the National Sharia Board - Indonesian Council of Ulama /DSN-MUI, (2000) No. 32/DSN-MUI/IX/2002 on Sharia Bond defines sukuk as long-term securities based on sharia principles issued by issuers to sukuk holders, which require issuers to pay sukuk holders in the form of profit sharing/margin/fee and pay back sukuk funds at maturity.

Sukuk issuance in pecking-order conditions is preferred if there is accessibility to the sukuk market, along with market timing, namely, the low level of financial constraints of the sukuk issuing company and the undervaluation of a firm in the pre-issuance period (Nagano, 2016). One of the guideline investors in making investment decisions is a sukuk rating, which can be categorised into investment grade and non-investment grade (Zakaria, Md Isa, & Abidin, 2013). There are various ways to determine sukuk ratings, but the most common is used by rating agencies by considering the categorisation of sukuk into asset-backed and asset-based sukuk, but still on the basis that sukuk is a debt instrument. Mseddi and Naifar (2013) offer a sukuk rating methodology that is closer to the characteristics of sukuk as sharia-based financial instruments. Separately, a sukuk rating is often associated with a company's financial condition, governance, risk factors, and structure (M. A. A. Elhaj, Muhamed, &

Ramli, 2015; Hamid, Zakaria, & Aziz, 2014; Nurakhiroh, Fachrurrozie, Jayantto, & Al., 2014; Pramesti, 2018; Pranoto, Anggraini, Takidah, & Al., 2017; Purwaningsih, 2013; Zakaria et al., 2013).

Agency theory perspective is used to understand good corporate governance. Agency theory is a contract between the manager (agent) and the owner (principal). For this contractual relationship to run smoothly, the owner will delegate decision-making authority to the manager (Jensen & Meckling, 1976). The mechanism of good corporate governance is expected to be a bridge to increase trust in managers (agents) in managing wealth owned by shareholders (principals), and managers (agents) will not commit fraud to benefit their own interests. According to the National Committee on Governance (KNKG), the board of commissioners as a corporate organ has the duty and responsibility collectively to supervise and provide advice to directors and ensure that the company conducts good corporate governance. Companies with many commissioners will enjoy tighter and better supervision for directors to manage the company and its long-term obligations. The Board of Directors (BOD) has more time to focus on decisions, in addition to having clear rights to their duties and responsibilities. Their decision to make long-term investments is important in reducing the risk of default, thereby ensuring profit sharing for each sukuk holder (Saad, Haniff, Ali, & Al., 2019). Having two positions in an organisation, as CEO and chairman, could even increase responsibility towards making corporate decisions and better sukuk rating performance. The larger the board size, the better the sukuk rating (M. A. Elhaj, Muhamed, Ramli, & Al., 2018).

Institutional ownership plays an important role because the presence of institutional ownership can control earnings management. Institutional ownership and the audit committee have a significant positive effect on bond rating predictions; the greater the institutional ownership and audit committee in a company, the higher bond rating predictions will be (Marfuah & Endaryati, 2016). Another good corporate governance mechanism is the audit committee, which is formed by the board of commissioners and is required to adhere to corporate governance guidelines. The audit committee is tasked with assisting the board of commissioners to ensure that the financial statements are presented fairly in accordance with generally accepted accounting principles, the company's internal control structure is carried out properly, and internal and external audits are carried out in accordance with applicable audit standards and follow-up of audit findings by management (Wahyudin, 2008).

Elhaj *et al.* (2015) find that the board size has a positive significant effect on sukuk rating; financial leverage has negative effect on sukuk rating, while sukuk ijarah is positively related to sukuk rating. Nurakhiroh *et al.* (2014) state that profitability and leverage affect the sukuk rating, while liquidity and earnings management do not.

Earnings management is the choice by a manager of accounting policies or real actions that affect earnings to achieve a specific reported earnings objective (Scott, 2015). Some varieties of earnings management are taking a bath, income minimisation/maximisation, and income smoothing. The latter means that the management will produce financial statements that are not in accordance with the actual state of the company's finances to attract the interest of financial statement users. One is for the assessment of sukuk rating agencies that issue sukuk, which investors will take into consideration. The more a company is able to manage its resources so that it produces more profit, the lower the risk of default and the better the rank of sukuk (Astuti, 2017). However, Pranoto *et al.* (2017) did not see it that way, finding that the company's ability to generate profits had no significant effect on the sukuk rating. A company's ability to generate profits can also be measured by the ability to grow assets (Sudaryanti, Affandi Mahfudz, Wulandari, & Al., 2011).

Therefore we develop the following hypotheses.
H_1: The size of the board of commissioners has an effect on sukuk rating.
H_2: Institutional ownership has an effect on sukuk rating.
H_3: The audit committee has an effect on sukuk rating.
H_4: Income smoothing has an effect on sukuk rating.
H_5: Return on equity has an effect on sukuk rating.
H_6: Growth has an effect on sukuk rating.

Many studies on sukuk rating focus on its relationship with internal conditions of the company, such as financial and governance matters, separately, but there is a lack of evidence for its consequence to agency theory as a whole. In addition, results are mixed with little evidence of determinants of risk and structure. This study thus focuses on finding proof of the consequences of agency theory on sukuk rating.

Data and Method
Research Design

This study used panel data analysis to study the same cross-section units that are measured at different times. In other words, we analyse data from some of the same individuals of each sukuk issuing company and other data from the IDX and other related institutions from 2015 to 2018.

The population in this study are all sukuk issued by corporations and listed in the Indonesia Stock Exchange and rated by *Pemeringkat Efek Indonesia* (Pefindo) in 2015-2018. As of 2018, there were 104 outstanding corporate sukuk from 25 corporations, but only eight corporations had outstanding sukuk during the 2015-2018 observation period and were

included in investment grade. Sukuk data are sukuk issued by the eight corporations for four years, so the number of observations is 32.

Research Variables

1). Sukuk Rating

Sukuk ratings issued by rating agencies take the form of letters, so it is necessary to convert these ratings. The sukuk rating is first converted into numbers ranging from 1 to 8.

Table 1: Sukuk Rating Category

Long Term Sukuk Rating	Coding
idAAA$_{(sy)}$	Investment Grade
idAA$_{(sy)}$	Investment Grade
idA$_{(sy)}$	Investment Grade
idBBB$_{(sy)}$	Investment Grade
idBB$_{(sy)}$	Non-investment Grade
idB$_{(sy)}$	Non-investment Grade
idCCC$_{(sy)}$	Non-investment Grade
idD$_{(sy)}$	Default

Source: Pefindo - Credit Rating Agency (2018)

In this research, all data are sukuk ratings included in investment grade, which are divided into two categories: high investment grade (idAAA$_{(sy)}$ and idAA$_{(sy)}$) and low investment grade (Ida$_{(sy)}$ and idBBB$_{(sy)}$).

2). Size of the Board of Commissioners

The size of the board of commissioners is the total number of members stated in the company's annual report.

3). Institutional Ownership

Measurements for institutional ownership use a ratio scale. Institutional ownership is measured by the percentage of shares held by the institution in the company of all the outstanding shares.

4). Audit Committee

The measurement for the audit committee uses a ratio scale measured by the number of audit committee meetings in one year.

5). Income Smoothing

The practice of income smoothing is measured using the Eckel index (Eckel, 1981) as in Martinez and Castro's (2011) research. The Eckel index can distinguish between companies that practice income smoothing or not. The Eckel index is calculated thus:

$$IS = \frac{CV\ \Delta I}{CV\ \Delta S}$$

Notes:

CV = the coefficient of variable variation. The standard deviation is divided by the expected value.

I = Annual net income after tax.

S = Annual total sales.

ΔI = Changes in income in one period.

ΔS = Changes in sales in one period.

$CV\Delta I$ = The coefficient of variation for changes in earnings.

$CV\Delta S$ = The coefficient of variation for changes in sales.

$CV\Delta I$ or $CV\Delta S$ can be calculated by:

$$\frac{\sqrt{\Delta x - \Delta \bar{x}^2}}{\sqrt{n-1}} \div \Delta \bar{x}$$

Notes:

Δx = Changes in income (I) or sales (S) between year n and n-1.

$\bar{x}$ = Average changes in income (I) or sales (S) between year n and n-1.

n = Number of observation years.

Criteria of companies that do income smoothing:

a. companies are considered to be doing income smoothing if the Eckel index is smaller than 1 ($CV\Delta S > CV\Delta I$); or

b. companies are considered to not be doing income smoothing if the Eckel index is greater or equal to 1 ($CV\Delta S \leq CV\Delta I$).

6). Return on Equity

The profitability ratio describes the ability of a company to generate profits through its resources. In this study, profitability is measured by return on equity.

7). Growth

Assets are used for company operational activities. Asset growth will further increase the confidence of investors.

Measurement of variables is summarised in Table 2.

Table 2: Variables Measurement

Variables	Proxy/Measurement
Sukuk Rating	SR. Sukuk rating included in investment grade are divided into two categories: high investment grade (idAAA$_{(sy)}$ and idAA$_{(sy)}$) and low investment grade (idA$_{(sy)}$ and idBBB$_{(sy)}$).
Size of the Board of Commissioners	BC. Total number of members of the board of commissioners in a company stated in the company's annual report.
Institutional Ownership Audit Committee	IO. Percentage of shares held by the institution in the company of all the outstanding shares.
Income Smoothing	AC. Number of audit committee meetings in one year.
Return on Equity Asset Growth	IS. The Eckel index a. Companies are considered to be doing income smoothing if the Eckel index is smaller than 1 (CVΔS > CVΔI). b. Companies are considered to not be doing income smoothing if the Eckel index is greater or equal to 1 (CVΔS $\leq$ CVΔI).
	ROE. ROE = Net profit/Equity
	AG. Annual growth of total asset

Analysis Method

This study uses multiple linear regression analysis to estimate and/or predict the population average or the average value of the dependent variable based on known independent values. The equation of multiple linear regressions with panel data in this study is:

$$SR_{it} = a + B1\ BC_{it} + B2\ IO_{it} + B3\ AC_{it} + B4\ IS_{it} + B5\ ROE_{it} + B6\ AG_{it} + u_{it}$$

Findings

Sukuk ratings collected in this study varied from the lowest rating (idAA (sy)) and the highest rating (idAAA (sy)). Dependent variable sukuk rating is categorised as 'low investment grade' with code 0 and 'high investment grade' with code 1. The high investment grade is a reference or effect of the cause of events that is hypothesised to be the cause of an effect or problem. In this study, the board of commissioners, institutional ownership, audit committee, income smoothing, return on equity, and asset growth are causes that could increase high investment grade (code 1). Based on the classification table (also called the frequency of expectations, the number of samples with the high investment grade category of reference dependent variable or result (code 1) is as many as 20. Low investment grade includes 12 samples, so the overall percentage value before the independent variable is entered into the model as 20/32 = 52.0%.

Iteration history results in block 0. When independent variables are not included in the model with N = 32, the value of the likelihood log 2 is 42.340. Degree of freedom (DF) = N - 1 = 32-1 = 31. Chi-square (X_2) table is at DF 31, and probability of 0.05 is 44.985. The value of -2 log likelihood (42.340) < X_2 table (44.985), indicating that the model before entering the independent variables fits the data.

Table 3 shows that when independent variables are included in the model, degree of freedom (DF) = N - number of independent variables - 1 = 32-6-1 = 25, Chi-square (X_2) table is at DF 25, and probability of 0.05 is 37.652. The value of -2 log likelihood (23.309) < X_2 table (37.652), indicating that the model with the addition of independent variables fits the data. This is reinforced by the results of the omnibus test where X_2 value 19.031 > X_2 table in DF 6 (number of independent variables is 6), which is 12.591 or with significance of 0.004 < 0.05 indicating that the addition of independent variables can have a real influence on the model, or the model is declared fit.

Table 3: Iteration history Block 1

Iteration		-2 Log likelihood	Coefficients						
			Constant	BC	IO	AC	IS	ROE	AG
Step 1	1	26.683	-6.581	.205	2.626	.198	-.310	.627	-.868
	2	24.107	-9.760	.344	3.426	.302	-.510	1.463	-1.210
	3	23.451	-12.865	.509	4.068	.371	-.693	2.171	-1.171
	4	23.319	-15.501	.661	4.566	.404	-.819	2.698	-.964
	5	23.309	-16.468	.718	4.748	.414	-.862	2.886	-.882
	6	23.309	-16542	.722	4.762	.415	-.865	2.901	-.876
	7	23.309	-16.542	.722	4.762	.415	-.865	2.901	-.876

Source: Data Processed (2019)

Nagelkerke R Square values of 0.611 and Cox and Snell R Square 0.448 indicate that the ability of the independent variables in explaining the dependent variable is 0.611 or 61.1%, and there are 38.9% other factors outside the model that explain the dependent variable (Table 4).

Table 4: Pseudo R Square

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	23.309[a]	.448	.611

Source: Data Processed (2019)

The Hosmer and Lemeshow values of the goodness of fit test (GoF) test statistics are 0.429> 0.05 (Table 6). The Chi-square table value for DF 5 (number of independent variables - 1) at the 0.05 significance level is 11.070, so the value of Chi-square Hosmer and Lemeshow count is 8.041 < Chi-square table 11.070. There is no significant difference between the model and the value of its observations. It can be concluded that the model is correct and can predict the value of its observations. Because the model matches the observational data and can be accepted, hypothesis testing can be done.

The classification result shows the number of samples of low investment grade 9 + 3 = 12 data. The actually low investment grade is nine, and that should not be a low investment grade but not for as many as three. The number of samples of high investment grade 4 + 16 = 20 data. The actual high investment grade is four, and that should bea high investment grade but not for as many as 16. Overall value percentage of (9 + 16)/200 = 78.1%, which means the accuracy of this model is 78.1%.

Table 5 shows the results of the hypothesis testing. The variable board of commissioners is measured by the number of the commissioners in a company. The smallest board of commissioners is comprised of two people at PT. Lotte Chemical Titan, and the larges has 10 people at PT. Indosat. The P value of the Wald test (Sig) variable board of commissioners (BC) 0.310 > 0.05, meaning that the variable does not have a significant partial effect on Y in the model. The magnitude of the effect is indicated by the Exp value (B) (also called odds ratio [OR]). The board of commissioners OR 2.059 means that a company with more commissioners is more likely to experience high investment grade (code 1 dependent variable) by as much as 2.059 times compared to companies with fewer commissioners. Value B = Natural Logarithm of 2.059 = 0.722. The value B is positive, indicating that the board of commissioners has a positive relationship with high investment grade.

The variable institutional ownership is measured by the percentage of share ownership by other companies (IO). The lowest institutional ownership is 25.13% in PT. Electronic Metro

data, and the highest value of 100% is in PT. Bank BNI Syariah, while the average value is 68.53%. The P value of the Wald test (Sig) variable KI 0.196 > 0.05, meaning that the variable does not have a significant partial effect on Y in the model. Institutional ownership OR 116.954 indicates that companies with more institutional ownership are more likely to experience high investment grade by as many as 116.954 times compared to companies with less institutional ownership. Value B = Natural Logarithm of 116.954 = 4.762, showing that the number of institutional ownerships has a positive relationship with high investment grade.

The variable audit committee is measured by the audit committee meetings in one year. The fewest audit committee meetings is 3, and the most is 27 times in PT. Pupuk Kaltim. The P value of the Wald test (Sig) variable AC 0.048 < 0.05, meaning that the variable has a significant partial effect on Y in the model. Audit committee OR 1.515, so a company with more audit committee meetings is more likely to experience a higher investment grade; by as much as 1.515 times, compared to companies with fewer audit committee meetings. Value B = Natural Logarithm of 1.515 = 0.415, indicating that audit committees have a positive relationship with high investment grade.

The P value of the Wald test (Sig) income smoothing variable is 0.197 > 0.05, meaning that the variable does not have a significant partial effect on Y in the model. Variable income smoothing or 0.421 means that companies that use income smoothing are more likely to experience high investment grade by as much as 0.421 times compared to companies that do not. Value B = Natural Logarithm of 0.421 = -0.865, showing that income smoothing has a negative relationship with high investment grade.

The P value of the Wald test (Sig) variable ROE 0.266 > 0.05, meaning that the variable does not have a significant partial effect on Y in the model. Variable ROE OR 18.193 means that companies with larger ROE are more likely to experience high investment grade by as much as 18.193 times compared to companies with smaller ROE. Value B = Natural Logarithm of 18.193 = 2.901, showing that ROE has a positive relationship with high investment grade.

The P value of the Wald test (Sig) variable growth 0.730 > 0.05, meaning that the variable does not have a significant partial effect on Y in the model. Asset growth variables OR 0.416. Hence, companies with greater asset growth are more likely to experience high investment grade by as much as 0.416 times compared to companies with smaller growth. Value B = Natural Logarithm of 0.416 = -0.876, showing that growth has a negative relationship with high investment grade.

Table 5: Variables in the Equation Block 1

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1	BC	.722	.711	1.031	1	.310	2.059

IO	4.762	3.683	1.671	1	.196	116.954
AC	.415	.210	3.919	1	.048	1.515
IS	-.865	.671	1.663	1	.197	.421
ROE	2.901	2.609	1.236	1	.266	18.193
AG	-.876	2.534	.120	1	.730	.416
Constant	-16.542	13.435	1.516	1	.218	.000

Source: Data Processed (2019)

Based on the values of B in the calculation above, the model of the equation is:
Sukuk Rating = -16.542+ 0.722 Board of Commissioners + 4.762 Institutional Ownership + 0.415 Audit Committee -0.865 Income Smoothing + 2.901 ROE – 0.876 Growth.

Conclusions and Recommendations

Based on the results of the study, the size of the board of commissioners, institutional ownership, income smoothing, profitability, and asset growth each have no significant effect on sukuk rating. Audit committee is the only factor that affects sukuk rating positively and significantly. Thus, findings indicate that internal company indicators are not the only factors that influence sukuk ratings. Other factors such as changes in circumstances and economic conditions also need to be examined. Sukuk, as a sharia financial instrument, must also be seen from the ethical aspect of commitment (Arafah & Nugroho, 2016), not merely as an investment instrument.

Sukuk may also promote default risk because it also needs to undergo a credit rating assessment of its future payment prospects. Any negative migration of the credit rating assessment would indicate default risk (Zakaria et al., 2013). It is important to know what factors can affect the sukuk rating because investors use it to make investment decisions. Agency theory states that the board of commissioners oversees management actions. The greater the number of board of commissioners, the better the control of the company is. According to Elhaj, Muhamed, and Ramli (2015), corporate governance is positively related to sukuk rating and significance. This research proves that one good corporate governance element, the audit committee, has a positive significant effect on sukuk ratings. Based on the data, the number of audit committee meetings from year to year increased, but the number of board of commissioners and institutional ownership tended to remain the same. Share ownership is dominated by institutions with an average share ownership of 68.53% by the institution in the company, which dominates the proportion of company shares. This might cause a lack of concentration in management institutions and corporate control because the institutions have their own problems.

Managers adjust earnings to receive higher compensation. While under pressure to avoid breaching debt covenants, managers are also likely to choose among accounting policies (Xue & Hong, 2015). One such choice is income smoothing. The results of this study show the absence of income smoothing influence's on sukuk ratings could be because variations in company profits from year to year could not be used as a measure of sukuk risk. The data reveals that, from eight sukuk issuers, only two indicate income smoothing. On the other hand, the sukuk ratings are almost the same from year to year. It could be possible that the result do not support significant influence of income smoothing on sukuk rating.

Profitability is proven not to affect sukuk rating significantly, possibly because rating agencies do not only take into account profitability factors. This result aligns with previous research that states that profit and size showed a positive and non-significant effect on sukuk rating (Pranoto et al., 2017). In one study on bond rating, growth does not significantly influence the bond rating (Sudaryanti et al., 2011). This study also found that companies' growth does not influence sukuk ratings significantly. Growth of assets can increase investors' confidence, but trust in a sukuk still cannot be proven through asset growth.

In relationship to agency theory and its treatment in the market, sukuk is still considered a debt capital structure, so the rating of sukuk as well as of bonds considers the company's ability to pay its long-term debt. Investors in this case will take into account the sukuk rating as an indication that the sukuk issuing company is in good financial condition, implementing good corporate governance, and representing a low default risk. To achieve a high sukuk rating, the company will strive to show what investors expect from the indications. The results of this study cannot prove that the sukuk issuer company is trying to show good financial conditions and good governance in pursuit of a high sukuk rating.

Suggestions for future research based on these results are searching for any moderating variable that moderates financial ratios and corporate governance with sukuk rating. Future studies also could use a methodology rating approach that involves sharia parameter to establish sukuk's nature as a sharia financial instrument.

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