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Does Bond Ratings Assess Accrual Quality and Good Corporate Governance?

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Abstract: *This study aims at examine the relationship between accrual earning management and Good Corporate Governance (GCG) for bond rating of manufacturing company in ASEAN. This study uses 748 companies which are rated based on agency ratings of Standard & Poor (S&P) from January 2010 to December 2014. The results show that the bond rating, the accrual quality factor and good corporate governance are the important factors to be considered. This indicates that a conflict of interest as well as the bond issuer opportunist actions management cannot be detected properly by the rating agencies. Good corporate governance is also positively associated with bond ratings which indicate that good corporate governance of good company, as indicated by the level of concentration of ownership of larger companies tends to have a high bond rating. Thus, good corporate governance can reduce earnings management done by the managers of the company, so, it can reduce the positive effect of earnings management on bond ratings.*

Keywords: *Bonds,Rating, Good Corporate Governance, Accrual Quality, ASEAN*

1. INTRODUCTION

There have been several cases of errors bond rating as a result of the inability to detect the presence of accrual earnings management and to assess the implementation of Good Corporate Governance (GCG) at the company. This happened in the United States, when one of the financial conglomerates in the US, Lehman Brothers, in September 2008 declared bankrupt, but actually they got a rating of AA or AAA. The same thing happened in Australia, where the Federal Court finally declared the S & P rating caused misleading and defrauding investors (Tunai, 2012). In Europe, technical error committed by the rating agency Standard & Poor's (S & P) against France resulted in the European Union wanted the Standard & Poor's, Moody's Investors Service and Fitch Ratings put an end to the dominance of the ranking in Europe. This was done because the ratings error resulting in decreased investor confidence in investing into European countries and worsened the economic crisis in the world (Tunai, 2011).

An error in the ranking was made by rating agencies. PT. Kasnic Credit Rating Indonesia in July 2003 gave a rating of A- to the Global Bank. But with the announcement of Indonesian Bank regarding license suspension Global Bank, then Kasnic bonds downgraded to D (default). Another cases, in 2009, the bond default (default risk) occurs in many companies that were quite popular with the public, although previously have received the worth rating of the investment. PT Mobile-8 Telecom, Tbk, PT DavomasAbadiTbk, and PT Central Proteinprima have failed to pay coupon bonds or bond debt. By ratings agency, downgraded eventually became D (Werastuti, 2013).

This study is important because there are still a few studyers giving careful attention to rating agencies (DemirtasCornaggia& Rodgers, 2013), whereas these institutions play a very vital role in the global economy. Rating agencies as one of the users of financial statements and financial reports utilize information to make an assessment, so that the rating of these bonds may declare the feasibility of such bonds are invested. As an independent institution, it provides information of ratingscale of the risks that could indicate a security bond for investors. Mistakes in giving the rating, could affect global economic conditions. The phenomenon that occurs today :firstly, the practice of rating shopping done by one agency (Tempo, June 19, 2014). This is done so that the company gets high rankings before issuing bonds. Given this practice, it willcreate unfair competition between agencies and lead to losses suffered by investors. These losses caused investors to buy bonds whose quality is not in accordance with the ratings issued by rating agencies.

Secondly, there are some events that raise the question whether bond ratings assessed by rating agencies are accurate or not?In Indonesia, some issuers defaulted, happen to have an investment grade rating so that it can make investors suffer a crisis of confidence although the credit analyzes conducted by an independent agency.

In the midst of the emergence of a wide range of issues and problems that arise in the rating agencies, bond markets in ASEAN continue to experience improved performance. ASEAN has become the center of the world economy, along with the weakening of the European economy and begin slowing Chinese economy. ASEAN economic integration has been greatly developed since the ASEAN Free Trade Agreement (AFTA) was signed in 1992. In 2015, it was agreed the establishment of ASEAN through the ASEAN Economic Community (AEC) would be an open market based on production, where the flow of goods, services and investment would move freely without restriction (borderless) - out of the three things mentioned earlier.

Looking at the various problems that occured on the rating agencies and bond performance improved prospects in ASEAN countries, I want to test more on the accuracy of the rating agencies in providing bond ratings. The level of independence of rating agencies needs to be questioned in order to avoid greater losses experienced by bond investors. So, the rating agencies are expected to assess the quality of financial information accurately and correctly. The quality of financial information measured by accrual earnings management (discretionary accruals) and the level of management ownership as part of corporate governance.

Accrual earnings management is measured by models like as Model Jones modification (1991) used to identify companies that perform accrual earnings management. This model is said to be the best model detecting earnings management (Choi and Hwang, 2012). In this article good corporate governance is used, because the higher the level of implementation of good corporate governance makes, the higher the quality of the financial statements is issued. Financial reporting quality was assessed by the ability of the figures in the financial statements to be accounted for.Ownership of management that is believed to be able to restrict the behavior of managers in doing so, the earnings management in this studyused to measure the level of management ownership GCG.

This study is a continuation of previous study(Werastuti, 2013) which suggested the need for links between the accrual earnings management with GCG so that it can provide some contribution. Firstly, to test the quality of financial reporting assessed through accrual earnings management and corporate governance of the bond rating. So far, the study that has been done is an analysis of the real earnings management against the bond rating (Brown, Chen, & Kim, 2015; Ge& Kim, 2014) and the relationship of CSR with earnings management (Attig, et *al*., 2013). Secondly, to test the quality of the financial statements related to the rating conducted by rating agencies in ASEAN. This study wants to prove the implications of accrual earnings management practices and the implementation of GCG for bond rating.

2. LITERATURE REVIEW

2.1. Agency Theory

Agency theory is a version of the game theory to model the process of a contract between two people or more and each of the parties involved in trying to get the best contract for each of them (Scott, 2000). Agency relationship is a contract between the principal agent, which is essentially the separation of ownership (investors) and management (manager or agent). This relationship is often a problem when each party has a different purposes. The core of agency theory is a conflict of interest between agents and principals.Agency costs that arise as a result of this conflict of interest is the cost of surveillance (monitoring costs), a guarantee fee (bonding costs), and the residual loss (residual loss).To reduce agency costs can be taken several mechanisms, namely through ownership of shares of the company for managers, merging the funding source of loans and equity, as well as the distribution of dividends (Crutchley and Hansen, 1989).

The relationship between the bond rating agency theory can be shown with some explanation as follows. First, with the bond ratings issued by rating agencies, it will be able to lower the principal problem with the agent. Supervision of rating agencies will lower the bond rating at the time of the company's performance declines, will be able to avoid the opportunistic behavior of the agents.

Second, the principal agent problems associated with compensation for the rating agencies. Principal designate agencies to establish the bond rating based on the company's financial performance. Low ratings resulted in increased borrowing costs.This results in increased corporate borrowing costs and encourage incentives related to the structure of the compensation to be given to the rating agencies.

To avoid the unilateral termination of the contract or act of lowering the fee by the client (principal), the agent is motivated to give a higher rating than it deserves. Thus, the rating agencies might lower the objective attitude for fear of losing future business.

2.2. Earnings Management

Financial statements prepared on the accrual accounting gives the advantage that the company's profit information and measurement components have a better indication than the information generated from cash-based accounting (Financial Accounting Standards Board, FASB, 1978). In practice, the Accounting Standards allow managers choose accounting policies in the reporting of income, but this policy creates opportunities for managers to manage earnings (Sari and Bandi, 2010). Briefly, Scott (2003) defined that earnings management is the action taken by the accounting policy choice to obtain specific purposes, for example to meet their own interests or to increase the market value of their companies. Earnings management can be defined as a neutral financial reporting in which managers intensively to intervene to generate some personal gain. Managers can intervere by modifying how they interprate a wide range of financial accounting standards and accounting data (Healy and Wahlen, 1999). Earnings management is the manager's actions to increase or decrease in reported earnings at the present moment of a unit that is the responsibility of the manager without linking with the increase or decrease in long-term economic profitability (Fischer and Rosenzweig, 1995). Earnings management practices lead to reduced reliability of earnings, because in earnings management are earnings measurements of refraction so that reporting of earnings to be not as they should be reported.

2.3. Corporte Good Governance

Quality information is also influenced by corporate governance (CG). Although not a direct measure of the quality of accounting information, the level of CG gives insight into the more common throughout corporate reporting environment (Bhojraj and Sengupta, 2003; Wang and Hussainey, 2013). As a result, the level of CG may have an indirect effect on the information reported in the financial statements. For example, a company with a bad CG may be due to lack of proper internal control over financial reporting or perhaps manager violates the code of conduct.

2.4. Bonds Rating

Bonds is one of the products of the investment. In addition to providing a profit to invest also has risks, so as to assess the performance of the issuer should be done by a third party that is in charge of overseeing the work of issuers. Third parties who provide evaluation and assessment of the performance of listed companies related to the bonds issued by so-called rating agencies. Bond rating agencies are independent institutions that inform the ranking scale debt risk. Examples of agencies such as Fitch, Standard & Poor's (S & P), Moody's and other agencies.In this study, the rating agencies are used as the object is Standard & Poor's (S & P).

Bond ratings can be categorized based on the risk in two main sectors (Fabozzi, 1996 and Coyle, 2002); that is:

1) Investment grade, which has the fourth-highest (AAA, AA, A, BBB)
2) Non-investment grade, which has four ranked lowest (BB, B, CCC, D). This category is also known as high-yield, low grade or junk debts.

The main purpose of rating the bonds is to provide accurate information about financial performance, positioning the company's businesses and publishing industry debt (bonds) in the form of ratings to potential investors. In addition, investors may obtain information about the investment risk, the investment recommendation and comparison of a bond issue in the bond market. Benefits of rating bonds for issuers is an information provider business position, determine the structure of the bonds, performance support, marketing tools, and maintain investor confidence bonds in the issue.

2.5. Hypothesis Development

Companies in the activities related to contracts with several other parties (the nexus of contracts), the contract with shareholders, debtors and other parties (Scott, 2000). With contracts has leaded to the need for information to reduce the asymmetry of information. Information unbalanced condition is recognized by managers and encourage improper behavior, ie the behavior of earnings management.

The figures in the financial statements presented in the form of financial ratios also serve as a limitation (restriction) in article contractual agreement bond debt. Bond debt contract contains the promise of the company's management to protect the assets of the company's bond owners. Violations restriction management actions in the bond contract relates to the income produced by the company (such as debt service coverage ratio) might be would trigger the behavior of earnings management that aims to avoid an increase in contracting costs to be borned by the company, such as the prohibition for companies to pay dividends (Scott, 2000), and this is bad news for market participants, which in turn will cause a decrease in the market value of the company.

Bond ratings can be used as a basis for making restriction in article contractual agreement bond debt. Corporate bond downgrades lead to a decline in the value of the company as a result of negative market reaction (Hand, et *al*., 1992). Defondstudy and Jiambalvo (1994) and Sweeney (1994) indicates that the company's debt agreements offenders using accruals to increase earnings the previous year.

If the quality of accrual plays an integral role in the establishment of credit ratings, it is an interesting study question is whether the rating agencies can detect the presence of accrual earnings management in the financial statements?This question is important because of two reasons. First, provide insights into the ability of rating agencies as users of financial statements to assess the quality of financial information. Second, it allows for the testing was not directly about the fact that the companies that are considered will provide direct compensation in order to influence the provision of credit. With the existence of the phenomenon, then it is likely the rating agencies are not able to interprate the quality of accruals accurately and precisely. This is due to a conflict of interest between the agent with the principal giving rise to the practice of incentives to ignore the fundamentals of the company's financial condition.

I. Relationship Earnings Management Accrual with Corporate Bond Rating.

Demirtas, 2013; Lin &Shen, 2015 found a significant positive relationship between earnings management accrual and initial ranking.It is stated that the rating agencies could not detect any of these strategies or also due to the practice of incentives. Thus, the company did accrual earnings management to increase the bond rating companies.

In this studyit is presumed that the management company will make the earnings management practices with the aim of increasing profits in sight of the value of positive discretionary accruals. This practice allegedly is not able to be detected by the rating agencies as the party deemed to have a better ability to analyze financial information, when compared with other financial statement users. Another possibility is the existence of a conflict of interest that caused the rating agencies do not lower the bond rating, although it could have known the opportunist actions performed by the agent. This indicates that although there is a high indication of accrual earnings management does, the rating agencies will continue to raise the bond rating.Based on the aboveexplanation it can be made the following the first hypotheses: Management accrual earnings have positive effects on corporate bond rating

II. Relationship Management Ownership Rate on the Bond Rating Companies

Bond ratings also consider the high governance because governance can create a good financial position and away from the risk of bond defaults. (Ashbaugh-Skaife, et *al*., 2006) states that corporate There have been several cases of errors bond rating as a result of the inability to detect the presence of accrual earnings management and to assess the implementation of Good Corporate Governance (GCG) at the company. This happened in the United States, when one of the financial conglomerates in the US, Lehman Brothers, in September 2008 declared bankrupt, but actually they got a rating of AA or AAA. The same thing happened in Australia, where the Federal Court finally declared the S & P rating caused misleading and defrauding investors (Tunai, 2012). In Europe, technical error committed by the rating agency Standard & Poor's (S & P) against France resulted in the European

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III. Relationship between Management Ownership Rate for Accrual Earnings Management and Corporate Bond Ratings

GCG proxied by the level of management ownership used to control the behavior of the management of opportunistic. Researcher wanted to test whether the level of management ownership affects the relationship between earnings management accrual with bond rating companies. By positioning management ownership as a variable moderating, it is expected to weaken the relationship between earnings management accrual with bond ratings.For this reason, hypothesis third is formulated: The level of management ownership weakens the positive relationship between accrual earnings management and corporate bond ratings

3. Study Methods

3.1. Samples and Data Study

This study uses a sample of manufacturing firms in ASEAN member countries rated by ratings agency Standard & Poor's studied is the company that publishes the long-term domestic bonds are rated S & P. The only study uses a sample of manufacturing firms as to minimize cross-industry variations that can affect earnings informativeness.

Sample selection criteria are (1) Company listed on the Stock Exchange of ASEAN from 2010 to 2014 and issued bonds and conduct bond rating at S & P between 2010 and 2014. (2) The manufacturing company that published and published the audited financial statements of the year 2006 to 2014. (3) Manufacturing companies increased bond ratings, both of whiches are within the category of non-investment grade and investment grade.

3.2. Specifications Model

To test the three hypotheses that have been formulated, we use the model (1). The first hypothesis is to examine the relationship between accrual earnings management and bond ratings. The second hypothesis to examine the relationship between management and ownership level bond rating.While the third hypothesis is used to test the effect of moderating variables on accrual earnings management relationship and bond ratings. The model below is estimated using an ordered logistic regression.

$R_{it} = \alpha + \alpha_1 ManAkrual_{it} + \alpha_2 KEPMAN_{it} + \alpha_3 ManAkrual_{it}*KEPMAN_{it} + \alpha_4 TA_{it} + \alpha_5 LIK_{it} + e$

Where:

R_{it} = bond ratings for rated S & P in year t for firm i.

$ManAkrual_{it}$ = size accrual earnings management derived from the model of Jones Modificationin year t for firm i

$KEPMAN_{it}$ = ownership management in year t for firm i

TA_{it} = log of total assets in year t for firm i

LIK_{it} = liquidity ratio in year t for firm i

3.3. Variables and Variable Operational Definition

3.3.1. Dependent Variable: bond rating.

The rating of bonds issued by S & P is composed of 8 types of ratings are: AAA, AA, A, BBB, BB, B, CCC, D, which is sometimes modified by adding a plus sign (+) or (-) to indicate differences in the strength or ability relative to a category rankings. The bond ratings are generally divided into two, namely investment grade ratings (AAA, AA, A, BBB) and non-investment grade (BB, B, CCC, D).

3.3.2. Independent Variables: Accrual Earnings Management

Jones Modification Model (1991) used to identify companies that perform accrual earnings management. This model is said to be the best model detecting earnings management (Yasa, 2010). Modification done by reducing revenue by changes in receivables. Changes in income adjusted for changes in accounts receivable due to the revenue on sales of existing derived from credit sales. A reduction in the value of accounts receivable shows that the income received is really a net income.

Jones model Modificationmeasure earnings management in the following ways:

Calculate the total accrual

$TA_{it} = NI_{it} - CFO_{it}$ (1)

Description:

TA_{it} = total accruals for firm i in period t

NI_{it} = net profit before extraordinary items the company i in period t

CFO_{it} = operating cash flow of the company i in period t

Calculated discretionary accruals (AD)

Jones model modificationaccrual estimate total initial deflated by total assets used to reduce heteroscedasticity. The model is as follows:

$TA_{it} / A_{it-1} = a (1 / A_{it-1}) + b1 (DPEND_{it} - DPIUT_{it} / A_{it-1}) + B2 (ATK_{it} / A_{it-1}) + e_{it}$ (2)

Description:

$DPEND_{it-1}$ = the company's revenue minus revenue t i period period t-1.

$DPIUT_{it}$ = receivables i t reduced the year-end final accounts year t-1.

ATK_{it} = gross tangible fixed assets of the company i at the end of the year t.

A_{it-1} = total assets of the company i at the end of the year t-1.

a = constant

b1, b2 = coefficient of regression

To calculate the profit made by the existence of arrangements proxy discretionary accruals (AD). Discretionary accruals calculated on the total net accrual minus accrual nondiskresioner were deflated by total assets, or by the formula:

$AD_{it} = TA_{it} / A_{it-1} - AND_{it}$ (3)

Description:

AD_{it} = discretionary accruals for firm i at the end of t

AND_{it} = non discretionary accruals for firm i at the end of t

Nondiskresioner accrual calculation (AND) is:

$AND_{it-1} = a\,(1/A_{it-1}) + b1\,(DPEND_{it} / A_{it}\text{-}DPIUT_{it} / A_{it-1}) + b2\,(ATK_{it} / A_{it-1})$ (4)

In order to determine the value nondiskresioner (AND) is done by inserting the value of a, b1, b2 into the equation (4). Therefore, it must first be performed regression (with SPSS) to the equation (2) in order to obtain the coefficients a, b1, b2. This regression is done using panel data (pooled data) to the observation period of 5 (five) years. t0is the announcement of a downgrade of the bond period, t-1 to t-5 is the estimation period. Data panel is used because based on the study of Thomas and Zhang (2000) found that using panel data for each type of company acquired accuracy better predictive models.

Having obtained the value nondiskresioner (AND) for each company, then the next will be calculated value of discretionary accruals for each of these companies. The value of discretionary accruals is obtained by using equation (3). If the value of discretionary accruals more than 0 indicated happened income increasing discretionary accruals.If the value of discretionary accruals less than 0 indicated happened income decreasing discretionary accruals.

3.3.3. Independent Variables / moderating: Ownership Level Management (KEPMAN)

Management ownership is the percentage of share ownership by directors, management, the commissioner or any person directly involved in the decision making of the company. This variable is used to determine the benefits of ownership in the management of the agency conflict reduction mechanism. Variable levels of management ownership used to be able to reflect corporate governance. Level management ownership can positively affect the bond rating because it will inhibit the action of opportunists. In this study, management ownership is measured according to the percentage of the number of shares that the proportion of shareholders from management that actively participate in the decision making of the company (directors and commissioners) with equation as follows:

$$\text{Ownership Management} = \frac{\text{Total Shareholding by Management}}{\text{Number of Shares Outstanding}} \times 100\%$$

3.3.4. Variables control: Characteristics Company

Some of the variables used to control the characteristics of the company is the size of the company (TA) and liquidity ratio (LK). The size of the company (TA) is measured by the natural logarithm of the company's assets. Liquidity (LK) is the ratio of the company to determine the company's ability to repay its obligations under the assets owned.

$$LK = \frac{\text{Current assets}}{\text{Current liability}} \times 100\%$$

4. RESULTS AND DISCUSSION

4.1. An Overview of Study Object

Based on the results of the sample selection using purposive samplingobtained as many as 748 companies (Table 1).

Table1. *Total of sample*

Criteria Samples	Total
Companies listed on the Stock Exchange of ASEAN from 2010 to 2014 and issued bonds and conduct bond rating at S & P between 2010 and 2014.	1186
Manufacturing companies that do not publish and publish the audited financial statements from 2006 to 2014.	(252)
Manufacturing companies have not improved bond rating, both of which are within the category of non-investment grade and investment grade.	(186)
Number of sample	**748**

Source: processed data (2015)

4.2. Descriptive Analysis

Descriptive Statistics in this study is presented in Table 2 to provide information about the characteristics variables of the study from January 2010 to December 2014.

Table2. *Descriptive Statistics*

Description	Maximum	Minimum	Average	Standard Deviation
R	6	2	3,8506	1,2730
ManAkrual	0,0002	0,0610	0,0039	0,0285
KEPMAN	50,9102	2,9850	26.5920	0,6832
TA	50,951	46,201	48,294	1,9462
LIK	0,9382	0,5829	0,7372	0,8214

The average rating of the bonds in the sample was 3.8506, or approximately rating BBB. Variable earnings management accrual (ManAkrual) is a residue of the estimation model accruals and no context to interprate it. Standard deviation, minimum and maximum appearances to be relatively small which helps reduce fears of outliers and errors accrual model specifications.

Variable levels of management ownership (KEPMAN) ranges from 2.9850 to 50.9102. The level of corporate governance manufacturing companies in ASEAN is still poor as indicated by the average value of 26.5920 KEPMAN. Minimum and maximum values of variables show that the size of small firms in the sample had total assets of approximately $ 46 million and the largest company has total assets of approximately $ 50 million. LIK with a mean value of 73% indicated the level of liquidity in the ASEAN manufacturing companies has been good.

Table3. *Correlation Spearman - Abnormal Accrual*

	R	ManAkrual	KEPMAN	TA	LIK
R	1				
ManAkrual	0,233 **	1			
KEPMAN	0,269 ***	0,020	1		
TA	0,811 ***	-0,346 ***	0,171	1	
LIK	0,183 *	-0,091	-0,401	0,014	1

Description

, **, * Indicate statistical significance at 10%, 5%, and 1% respectively.*

In Table 3 it can be seen that the Spearman correlation shows the correlation between the independent variables mostly relatively small. The main variables that accrual earnings management (ManAkrual) is positively correlated with the variable Rating. This correlation gives an early indication that in making decisions bond ratings, accrual earnings management is not used as one of the considerations for determining the bond rating companies. While corporate governance variables (GCG), Total Assets (TA), and Liquidity (LIK) are positively correlated with bond rating companies.

4.3. Ordered Logistic Regression Results

Tabel5. *Ordered Logistic Regression Results*

$R_{it} = \alpha + \alpha_1 ManAkrual_{it} + \alpha_2 KEPMAN_{it} + \alpha_3 ManAkrual_{it} * KEPMAN_{it} + \alpha_4 TA_{it} + \alpha_5 LIK_{it} + e$

Variables	Prediction	Model 1	Model 2
ManAkrual	+		139,937*
KEPMAN	+	0,817**	1,193**
ManAkrual*KEPMAN	?		-45,284
TA	+	3,389***	3,741***
LIK	-	7,110***	7,192***
Dummy years		Ya	Ya
Pseduo-R^2		0,67	0,65
LR stat		160,01***	163,79***

*, **, *** *Indicates statistical significant at a rate of 10%, 5%, and 1% respectively. R_{it} = bond ratings for rated S & P in year t for firm i. Measuring the ability of the bond issuer by S & P to repay the bonds. $ManAkrual_{it}$ = size accrual earnings management derived from the model of Jones Modificationin year t for firm i. $KEPMAN_{it}$ = ownership management in year t for firm i. TA_{it} = log of total assets in year t for firm i. LIK_{it}= liquidity ratio in year t for firm i.*

Table 5 consists of two test results of the study model based on the results of logistic regression. In column 1 describes the test results of the independent variables, namely: management ownership as a proxy of corporate governance. Whereas the second column shows the test results of the equations of the model proposed in this study. The test results showed that the coefficient on accrual earnings management is positive and significant at the 10% level (77.16), so,the first hypothesis accepted. This suggests that the increase in bond ratings tend to be obtained through increased profit by doing accrual earnings management by the management company. Results of this study support the studyDemirtas and Cornaggia (2013) who found that there is still a lack of clarity in interpreting and reading the actual financial condition of the company by rating agencies. Moreover, these results also prove that the practice of “rating shopping” phenomenon does happen to the rank of corporate bonds so that, the rating process be not well integrated.

The level of ownership of the company's management also significantly positive related to the bond rating, which is also consistent with the two test results contained in columns 1 and 2. These results indicate that the lower level of management ownership of the investor, it can lower the bond rating companies.

Level management ownership as a proxy for corporate governance could weaken the relationship between the quality of the accrual of the bond rating. This is evidenced from the results of the regression of the third hypothesis.Overall, the results in Table 5 prove all the first hypothesis accepted. Further to the new coefficients of the control variables, namely Total Asset also showed a consistency with provisional estimates. This suggests that high levels of total assets that can be used as a benchmark to demonstrate the soundness of the company, making a positive impact on bond ratings.

Irregularities occurred in the variable prediction of Liquidation, which has a positive correlation with the bond rating. There are several explanations as the cause of high liquidity. First, the high liquidity explains the company's tendency to prolong accelerating receivables and debt payments to more freely manage cash. Thus, the amount of current liabilities owned by the company is very capable to be repaid within an appropriate period. However, if high levels of liquidityhas achieved could indicate a less efficient cash management. The explanation lead to positive impact on bond ratings.

5. CONCLUSION

This study examines the relationship between accruals quality, good corporate governance, and the bond rating. The variables are ranked bond ratings issued by Standard & Poor's. The results shows that the bond rating, the quality factor accrual and good corporate governance is one of the important factors to be considered. The results support the findings (DemirtasCornaggia& Rodgers, 2013) which stated that the positive impact on the earnings management bond rating. This indicates that a conflict of interest as well as the bond issuer opportunist actions management can not be detected properly by the rating agencies. Good corporate governance is also positively This study uses a sample of manufacturing firms in ASEAN member countries rated by ratings agency Standard & Poor's studied is the company that publishes the long-term domestic bonds are rated S & P. The only study uses a sample of manufacturing firms as to minimize cross-industry variations that can affect earnings informativeness.

Sample selection criteria are (1) Company listed on the Stock Exchange of ASEAN from 2010 to 2014 and issued bonds and conduct bond rating at S & P between 2010 and 2014. (2) The manufacturing company that published and published the audited financial statements of the year 2006 to 2014. (3) Manufacturing companies increased bond ratings, both of whiches are within the category of non-investment grade and investment grade.

To test the three hypotheses that have been formulated, we use the model (1). The first hypothesis is to examine the relationship between accrual earnings management and bond ratings. The second hypothesis to examine the relationship between management and ownership level bond rating.While the third hypothesis is used to test the effect of moderating variables on accrual earnings management relationship and bond ratings. The model below is estimated using an ordered logistic regression.

The rating of bonds issued by S & P is composed of 8 types of ratings are: AAA, AA, A, BBB, BB, B, CCC, D, which is sometimes modified by adding a plus sign (+) or (-) to indicate differences in the strength or ability relative to a category rankings. The bond ratings are generally divided into two, namely investment grade ratings (AAA, AA, A, BBB) and non-investment grade (BB, B, CCC, D).

Jones Modification Model (1991) used to identify companies that perform accrual earnings management. This model is said to be the best model detecting earnings management (Yasa, 2010). Modification done by reducing revenue by changes in receivables. Changes in income adjusted for changes in accounts receivable due to the revenue on sales of existing derived from credit sales. A reduction in the value of accounts receivable shows that the income received is really a net income.

In order to determine the value nondiskresioner (AND) is done by inserting the value of a, b1, b2 into the equation (4). Therefore, it must first be performed regression (with SPSS) to the equation (2) in order to obtain the coefficients a, b1, b2. This regression is done using panel data (pooled data) to the observation period of 5 (five) years. t0is the announcement of a downgrade of the bond period, t-1 to t-5 is the estimation period. Data panel is used because based on the study of Thomas and Zhang (2000) found that using panel data for each type of company acquired accuracy better predictive models.

Having obtained the value nondiskresioner (AND) for each company, then the next will be calculated value of discretionary accruals for each of these companies. The value of discretionary accruals is obtained by using equation (3). If the value of discretionary accruals more than 0 indicated happened income increasing discretionary accruals.If the value of discretionary accruals less than 0 indicated happened income decreasing discretionary accruals.

Management ownership is the percentage of share ownership by directors, management, the commissioner or any person directly involved in the decision making of the company. This variable is used to determine the benefits of ownership in the management of the agency conflict reduction mechanism. Variable levels of management ownership used to be able to reflect corporate governance. Level management ownership can positively affect the bond rating because it will inhibit the action of opportunists. In this study, management ownership is measured according to the percentage of the number of shares that the proportion of shareholders from management that actively participate in the decision making of the company (directors and commissioners) with equation as follows:

Ownership Management = Total Shareholding by Management x 100%

Number of Shares Outstanding

Some of the variables used to control the characteristics of the company is the size of the company (TA) and liquidity ratio (LK). The size of the company (TA) is measured by the natural logarithm of the company's assets. Liquidity (LK) is the ratio of the company to determine the company's ability to repay its obligations under the assets owned.

Based on the results of the sample selection using purposive samplingobtained as many as 748 companies (Table 1).

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This study examines the relationship between accruals quality, good corporate associated with bond ratings which indicate that good corporate governance good company, as indicated by the level of concentration of ownership of larger companies tend to have a high bond rating. Thus, good corporate governance can reduce earnings management done by the managers of the company, so, it can reduce the positive effect of earnings management on bond ratings.

Furthermore, the implications of this study for market participants in general, will obtain more precise and correctly information on the rating so that, the risk of investing can be reduced. For academics, can be guided to conduct further study on the bond rating. Finally, the regulator will be able to establish new standards by required rating agencies to enhance assessment methodology by combining good corporate governance and quality of accruals so that, it can lower the "rating shopping" actions.

STUDY LIMITATIONS

a. This analysis is limited to ratings issued by S & P on manufacturing companies. Thus, the findings may not generalize to the overall environmental bond rating. In addition, data are limited on the S & P lowered the number of samples available due to incomplete data.

b. More in-depth study of the impact of shopping rating against the rating process can be tested empirically.

c. To identify earnings management, in addition to the quality of the accrual, the real activity can also be used to remember this event has proven to be a substitute accrual earnings management. The real activity is measured through cash flow from normal operations, deskrisioner expenditure accrual, and abnormal production costs. Future study needs to incorporate real activity and accrual earnings management in order to determine its effect on bond ratings.

d. Ownership management is considered as a proxy for good corporate governance, so that, the next study can use other components in assessing bond ratings.

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