EMPIRICAL EVIDENCE OF THE ROLE OF ACCOUNTING POLICY ON BOND RATING TO FINANCIAL COMPANIES LISTED IN INDONESIA STOCK EXCHANGE

Steacy Chaterine Tan
BCA Learning Institute
Steacy.tan@yahoo.com

Abstract
The objective of the empirical study is to examine the effect of leverage, liquidity, profitability and accounting policies on bond rating. The sample of this empirical study is financial companies that listed in Indonesia Stock Exchange during 2012-2016. The results of this empirical study shows that leverage affects negatively on bonds rating. While, liquidity, profitability, and accounting policy affect positively on bonds rating.

Keywords: Leverage; Liquidity; Profitability; Accounting Policies; Bond Rating

JEL Classification : M41 M42

Submission Date : December 2017 Accepted Date : April 2018

INTRODUCTION
Information obtained from bond rating will greatly assist investors in making investment. As known to investing in bonds has three basic components profit into consideration the investors in selecting investments in bonds, the interest income, capital gains, and futures special gain. One of the factors that affect the bond rating is the financial performance of a company.

The company's performance can be seen based on the financial ratios of the company reports as a factor accounting and non-accounting factors. Selection of the variables that can affect the financial ratios bond rating is based on the model of previous studies. The variables used in this study to examine the impact on bond ratings are accounting factors such as leverage, liquidity, and profitability as well as non factor accounting is accounting policy.

In the variable leverage, the higher the leverage ratio means that most of the assets funded by debt. The condition causes the company exposed to default risk or a low bond rating. The higher the leverage ratio, the greater the risk of failure will be experienced by the company. Thus, the lower the leverage, the higher the ranking given
to the company. Result of research conducted by Veronica (2015), demonstrated a significantly that the leverage can be used to predict the bond rating.

In measuring the liquidity variables used one of the tools is to use the cash ratio (cash ratio). Cash ratio is the ratio of the tightest liquidity and conservative on the company's ability to cover its short-term debt or obligation. This is because the cash ratio only takes into account the short-term liquid assets are the most liquid cash or cash equivalents of the easiest and quick to use in the repayment of current debts. The greater the current ratio, the better the performance of the company so that the bond ratings will also be good. Results of research conducted by Asih (2016), states that the liquidity has the ability to predict the bond rating.

Variable profitability shows good ability company makes a profit in relation to sales, total assets and profits for capital of company. Profitability ratio illustrates how effectively the company is operating so as to provide benefits to the company. The higher the level of profitability of the company, the lower the risk of insolvency (default), the better the ratings given to the company.

Accounting policies created to ensure that the financial statements present information that is relevant and reliable. The financial statements contain information for different users, such as shareholders, bondholders, creditors, customers, underwriters, and other interested parties. The users of financial statements require description of accounting policies selected as part of the information needed to make an assessment and investment decisions. They can not make a reliable assessment if the financial statements did not reveal clearly accounting policies in the preparation of financial statements. The application of conservative accounting policy indicates a higher quality financial statements.

Previous research examines financial ratios much the same but give different results and also focuses on manufacturing companies, banking companies, non-financial companies, and the company went public. In this study differs from previous studies because of financial ratio test on financial companies listed on the Indonesia Stock Exchange (IDX) with a longer time period is for five years and there is also an additional variable, namely accounting policies. The purpose of this study to see if the bond ratings on financial companies affected by the financial ratios with a longer time period and accounting policies as additional variables.

LITERATURE REVIEW AND HYPOTHESIS

Literature Review

Grand theory used in this research is agency theory. This theory explains the conflict between principal and agent is due to a conflict of interest between managers and shareholders. Agency theory emphasizes the efficient determination of contractual arrangements in connection with the owner's agent. Efficient contract is a contract that clear to each party which contains rights and obligations, so as to minimize conflicts agency (Setyapurnama and Norpratiwi, 2006). Agency relationship can cause problems when the parties concerned have different objectives. Agency problems born from the separation of management and funding, where managers are trying to increase their incentives in order to prosper itself and ignore the main task is to maximize the wealth of the owner.

Herawaty (2008) states that the conflict of interest between the owners (investors) with the manager (agent) arises when the owner wants capital increase wealth and prosperity of the owners of capital, while the manager also wants to create wealth for
managers. The owners want to maximize the return on their investment and securities prices, but the manager has psychological and economic needs are extensive, including maximizing compensation (Setyapurnama and Norpratiwi, 2006). The agency conflict resulted in the opportunistic nature of management that will lead to poor quality of the disclosure, in the case of financial statements, which are made of management. The quality of the financial statements can be detected from the elements of financial statements, such as assets, liabilities, equity and so on, which has always been used as a basis for decision making.

A credit rating is an assessment of the creditworthiness of a corporation or security, based on the issuer's quality of assets, its existing liabilities, its borrowing and repayment history and its overall business performance (Becker and Milbourn, 2011). There are two main types of 10 ratings. Bond ratings are provided for a vast majority of publicly traded bonds in the U.S. Corporate (or issuer) ratings are produced for all U.S. public firms that issue public debt. S&P, Moody’s, and Fitch are the three main providers of corporate credit ratings. Each agency has its own ratings system that doesn’t necessarily equate to another firm’s ratings scale, but they are all similar. Prior research has identified a number of reasons why issuers seek credit ratings. For example, credit ratings are important determinants of a firm’s capital structure (e.g., Sufi, 2007; Kisgen, 2009) and its cost of capital (Beatty and Weber, 2003; Kisgen and Strahan, 2010). In addition, credit ratings are used in federal and state legislation, in capital adequacy rules issued by regulators, and in corporate debt contracts. The regulatory requirement that certain categories of institutional investors rely on ratings for their investment decisions has given rise to regulatory arbitrage, whereby investors derive benefits from the rating label itself as opposed to the actual informativeness of the rating (e.g., Partnoy, 1999; Opp, Opp, and Harris 2013). Prior research has also shown that credit rating announcements generate investor reactions via bond and stock prices, and that the reaction is greater for credit rating downgrades than for upgrades (e.g., Holthausen and Leftwich, 1986; Hand, Holthausen, and Leftwich, 1992; Dichev and Piotroski, 2001). Not surprisingly, there is a large literature examining the determinants of credit ratings.

Prior studies have shown that financial ratios and accounting variables such as leverage, liquidity, accrual quality, earnings timeliness, and firm size are all determinants of a firm’s credit rating (e.g. Ederington, 1985; Blume et al., 1998; Kamstra et al., 2001; Skaife et al., 2006). A number of studies have also investigated how credit ratings change over time. Baghai et al. (2014) also find that rating agencies have become more conservative in assigning corporate credit ratings over the 1985 to 2009 period. A number of papers have also investigated whether the structure of the credit rating market induces biased ratings. This work has generally found that investor-paid rating agencies produce higher quality and lower ratings than issuer-paid rating agencies (Beaver et al., 2006; Cornaggia and Cornaggia, 2013; Jiang et al., 2012) and that issuer pay rating agencies bias their ratings (Griffin and Tang, 2011; Bolton et al., 2012; He et al., 2012; Opp et al., 2013). Becker and Milbourn (2011) examine how the ratings quality of incumbent CRAs responds to the entry of a new CRA. They find that when Fitch entered the market, the ratings quality of the incumbents (i.e., Moody’s and S&P) decreased. A smaller number of studies have investigated how regulatory changes affect credit ratings. Jorion, Liu, and Shi (2005) find that the information content of both credit rating downgrades and upgrades is greater following the passage of Regulation Fair Disclosure (FD). Cheng and Neamtiu (2009) find that following the
passage of Sarbanes-Oxley Act in 2002, rating agencies not only improve rating timeliness, but also increase rating accuracy and reduce rating volatility. Dimitrov et al. (2015) analyzes the impact of Dodd-Frank on corporate bond ratings. They find no evidence that Dodd-Frank disciplines CRAs to provide more accurate and informative credit ratings. Our study extends these papers by considering a specific, but important, type of regulatory change—a change in accounting standards. Accounting plays a critical role in the rating process. Rating agencies analyze financial statements and make “analytical adjustments to better portray reality” and “to better reflect the underlying economics of transactions and events” (Standard & Poor's, 2008; Moody's, 2006). Many of these adjustments arise because CRA treat off-balance sheet financing, such as defined 12 benefit pensions or operating leases, as debt. These adjustments have a substantial effect on financial ratios, which are inputs into the proprietary system used to generate the firm’s credit rating. Despite the fact that accounting statements play a critical role in establishing corporate credit ratings, it is unclear whether changes in accounting standards should have any effect on credit ratings. Credit ratings reflect a rating agencies’ opinion as of a specific date about the creditworthiness of a company or a particular obligation. In this section, we highlight three key stylized aspects of the ratings industry: (1) the relevance of credit rating agencies, (2) the reliance on financial information reported by issuers, and (3) timeliness of credit ratings.

A vital, and arguably controversial, characteristic of the ratings industry in Indonesia is the Pemeringkat Efek Indonesia (PEFINDO) is developed by the Financial Services Authority of Indonesia (previously known as the Capital Market Supervisory Agency) and the Central Bank of Indonesia. PEFINDO, which is the only locally-owned domestic credit rating agency, has been rating entities and their debt instruments listed in Indonesia Stock Exchange House. As of today, it has rated more than 500 companies and regional governments. Capital market instruments including the conventional senior- and subordinated bond, sukuk, medium-term notes (MTN), KIK-EBA, and mutual fund have all been rated by PEFINDO. To develop municipal bond market in Indonesia, PEFINDO, with strong support from the World Bank and Asian Development Bank, has started to rate regional governments since 2011. A strategic alliance with Standard & Poor’s (S&P), the leading global credit rating agency, starting in 1996, has enabled PEFINDO to adopt rating methodology by international standards.

To maintain its independency, PEFINDO is owned by a total of 86 entities (as of June 2017) representing key players in Indonesia capital markets in which no shareholder owns more than 50 percent. The same year, SEC permitted the reliance on credit ratings for regulatory purposes with the adoption of Rule 15c3-1 (‘Net Capital Rule’). This rule requires broker-dealers, when computing net capital, to deduct from their net worth certain percentages of the market value of their proprietary securities (‘haircuts’).

A primary purpose of these haircuts is to provide a margin of safety against broker-dealer losses in their proprietary positions (SEC 1975). The SEC concluded that it is appropriate to apply a lower haircut requirement for securities held by broker-dealers that are rated investment grade by a credit rating agency designated as an NRSRO. The differential treatment across securities is warranted because securities rated as investment grade are typically less volatile and more liquid than those that are rated below investment-grade.
Based on the above argument, the framework of this research as shown below:

Gambar 1
Theoretical Framework

Hypothesis Development

Veronica (2015) conducted a study on the factors that affect bond ratings on manufacturing companies showed that leverage ratio can be used to predict the bond rating. Maisaroh, Lau, and Masithoh (2016) conducted a study on the factors that affect the rating of bonds listed on the Stock Exchange 2010-2015 indicated that leverage has a significant effect on the bond rating. Damayanti and Fitriyah (2012) conducted a study on the influence of corporate governance and accounting ratios on bond ratings indicate that leverage has a positive impact on bond ratings.

The higher the leverage ratio means that most of the assets funded by debt. The condition causes the company exposed to default risk or a low bond rating. The higher the leverage, the greater the risk of failure of the company (Lina, 2010). Thus, the lower the leverage, the higher the ratings given to the company. It can be seen that the leverage effect on bond obligation. Based on description above, the hypothesis of this study is:

$H_1$: Leverage negatively affect on bond ratings

Asih (2016) conducted research on the analysis of the factors that affect the prediction of bond ratings on non-financial companies listed on the Stock Exchange period 2011-2013 showed that liquidity has an influence on bond ratings. Veronica (2015) conducted a study on the factors that affect bond ratings on manufacturing companies showed that the ratio of liquidity significant can be used to predict the bond rating Damayanti and Fitriyah (2012) conducted a study on the influence of corporate governance and accounting ratio on bond ratings indicate that liquidity has positive impact on bond ratings.
Companies are able to meet its financial obligations on time means the company is in a liquid state and have liquid assets such as cash and cash equivalents is greater than its current debt. The greater the cash ratio, the better the performance of the company so that the bond ratings will also be good. It can be seen that the liquidity effect on bond ratings. Based on the description above, the hypothesis of this study is:

\[ H_2: \text{Liquidity positively effect on bond ratings} \]

Veronica (2015) conducted a study on the factors that affect bond ratings on manufacturing companies showed that significant profitability ratios can be used to predict the bond rating. Asih (2016) conducted research on the analysis of the factors that affect the prediction of bond ratings on non-financial companies listed on the Stock Exchange period 2011-2013 showed that profitability had an influence on bond ratings. Arif (2012) in his research on the effect of earnings management and financial ratios of the company's bond rating indicates that profitability had a significant impact on bond ratings.

Profitability showed good ability company makes a profit in relation to sales, total assets and profits for their own capital. Profitability This illustrates how effectively the company is operating so as to provide benefits to the company. It is known that the higher the level of profitability of the company, the lower the risk of insolvency (default) and the better its ranking given to the company. It can be seen that the profitability effect on bond ratings. Based on the description above, the hypothesis of this study is:

\[ H_3: \text{Profitability positively effect on bond ratings} \]

Septyawanti (2013) conducted research on the effect of accounting conservatism and financial ratios of the bond rating, the results of the research explained that accounting conservatism does not have a significant effect on bond ratings. Suharli (2008) conducted a study on the effect of financial ratios and accounting conservatism to the bond rating, the results of the study explained that accounting conservatism has no effect on bond ratings.

Accounting policies made to ensure that the financial statements present information that is relevant and reliable. The financial statements contain information for different users, such as shareholders, bondholders, creditors, customers, underwriters, and other interested parties.

The users of financial statements require description of accounting policies selected as part of the information needed to make an assessment and investment decisions. They can not make a reliable assessment if the financial statements did not reveal clearly accounting policies in the preparation of financial statements. The application of conservative accounting policy indicates a higher quality financial statements, so the quality of financial statements the better the bond rating given to the company. Based on the description above, the hypothesis of this study is:

\[ H_4: \text{The accounting policies negatively affect on bond ratings} \]

**RESEARCH METHODS**

**Design Research**

The design used in this research is quantitative method. The variables are leverage, liquidity, profitability and accounting policy on bond rating. Samples are
Empirical Evidence Of The Role Of Accounting Policy On Bond Rating To Financial Companies Listed In Indonesia Stock Exchange

listed companies in Indonesia stock exchange. The data form this research is financial report that was obtained from The Indonesia Stock Exchange and PEFINDO. Observation period is 2012-2016. This study use tobit regression to test the hypothesis.

Variables Definition and Measurement

The dependent variable measurement using this scale ordinal. The scale measurements performed by giving a value of 1 and 10. The investment grade bond ratings extraordinary quality given the number 10 and 1 to rank quality investment grade bonds are very common.

<table>
<thead>
<tr>
<th>No.</th>
<th>Ranked</th>
<th>value rating</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>AAA</td>
<td>10</td>
<td>Extraordinary</td>
</tr>
<tr>
<td>2</td>
<td>AA +</td>
<td>9</td>
<td>Very good</td>
</tr>
<tr>
<td>3</td>
<td>A A</td>
<td>8</td>
<td>Good</td>
</tr>
<tr>
<td>4</td>
<td>A A -</td>
<td>7</td>
<td>Pretty good</td>
</tr>
<tr>
<td>5</td>
<td>A +</td>
<td>6</td>
<td>Moderate</td>
</tr>
<tr>
<td>6</td>
<td>A</td>
<td>5</td>
<td>Medium Enough</td>
</tr>
<tr>
<td>7</td>
<td>A -</td>
<td>4</td>
<td>Very Average</td>
</tr>
<tr>
<td>8</td>
<td>BBB +</td>
<td>3</td>
<td>Ordinary</td>
</tr>
<tr>
<td>9</td>
<td>BBB</td>
<td>2</td>
<td>Common Enough</td>
</tr>
<tr>
<td>10</td>
<td>BBB -</td>
<td>1</td>
<td>Very Common</td>
</tr>
</tbody>
</table>

Source: PT. PEFINDO, 2018

Leverage

One of the tools used to measure leverage on the impact on bond ratings is using DER (debt to equity ratio).

Debt to Equity Ratio = Total Debt / Total Equity

Liquidity

The level of liquidity is measured by cash ratio. The formula is:

Cash Ratio = (Cash + Cash Equivalents) / Good Debt

Profitability (X3)

Profitability ratios measure a company's ability to generate profits in relation to the level of sales, assets, as well as their own share capital (Prog and Sari, 2008).

Return on Total Assets (ROA) = Net Income / Total Assets

Accounting Policy (X4)

Givoly and Hayn (2002) saw a tendency of accrual accounts for several years.
In the event of a negative accrual (net income less than the operating cash flow) that are consistent over several years, is an indication that the application of conservative accounting principles.

\[ \text{ConA} = \frac{(\text{Net Income} - \text{Operating Cashflow})}{\text{Total Assets}} \] .................(4)

Where: Con A = Accounting Conservatism

**Population and Sample**

The study population was selected from a population of financial companies. The sample registered in PEFINDO and bonds traded on the Indonesia Stock Exchange (BEI). Selection of the sample in this research is using purposive sampling method in order to obtain representative data in accordance with the criteria specified. The criteria for the sampling as follows:

a) Financial companies that issue bonds in 2012-2016.
b) The bonds were rated by PT. PEFINDO.
c) Bond ratings used are bond ratings were issued by PT. PEFINDO.
d) Financial companies listed on the Indonesia Stock Exchange (IDX), which publish and publicize the annual financial statements (audited) for the period 2012-2016.
e) Financial Companies that did not experience any delisting in the period 2012-2016.

**Hypothesis testing**

To test the hypothesis used multinomial logistic regression model. This analysis was conducted to determine the effect of each independent variable (independent variable) on the dependent variable (the dependent variable) is predicted bond ratings of financial companies in 2012 until 2016, because the dependent variable is a dummy variable is the variable that has more than two alternatives. The model of the hypothesis is as follows:

\[ Y = \alpha + \beta_1 \text{DER} + \beta_2 \text{CR} + \beta_3 \text{ROA} + \beta_4 \text{CON}_A + \varepsilon \] ...........................................................(5)

**Where :**

Y: Bond rating is measured by interval scale 1-10, if the rating of the bonds, including investment grade category (from very ordinary up to extraordinary).
\( \alpha \): Constants
\( \text{DER} \): Debt to equity ratio
\( \text{CR} \): Current Ratio
\( \text{ROA} \): Return on Asset
\( \text{CON}_A \): Conservatism Policy
\( \varepsilon \): Error

**RESULTS AND DISCUSSION**

In this study were used as objects of research are financial companies listed in Indonesia Stock Exchange and issued bonds are rated by PEFINDO during the period
Empirical Evidence Of The Role Of Accounting Policy On Bond Rating To Financial Companies Listed In Indonesia Stock Exchange

2012-2016. Based on the criteria predefined sample obtained as many as 30 financial companies in the years 2012, 2013, 2014, 2015 and 2016 that there were 150 samples.

Independent variable data obtained from the official website of Indonesia Stock Exchange is www.idx.com and dependent variable data obtained from the official website of www.pefindo.com. In this section we describe each variable of data that has been processed.

### Table 2
Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>DER</td>
<td>150</td>
<td>0.7753</td>
<td>12.7469</td>
<td>5.726979</td>
<td>3.0015859</td>
</tr>
<tr>
<td>CR</td>
<td>150</td>
<td>0.0027</td>
<td>1.7251</td>
<td>0.359982</td>
<td>0.3540003</td>
</tr>
<tr>
<td>ROA</td>
<td>150</td>
<td>-0.0392</td>
<td>0.1633</td>
<td>0.029929</td>
<td>0.0319659</td>
</tr>
<tr>
<td>CON_A</td>
<td>150</td>
<td>-0.3546</td>
<td>0.3611</td>
<td>0.028340</td>
<td>0.0876583</td>
</tr>
</tbody>
</table>

*Source: Processed Data*

### Table 3
Model Fitting Information

<table>
<thead>
<tr>
<th>Model</th>
<th>Model Fitting Criteria</th>
<th>Likelihood Ratio Tests</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-2log likelihood Chi-Square df Sig</td>
<td></td>
</tr>
<tr>
<td>Intercept only</td>
<td>560.266</td>
<td></td>
</tr>
<tr>
<td>Final</td>
<td>491.933</td>
<td>68.333</td>
</tr>
</tbody>
</table>

*Source: Processed Data*

### Table 4
Likelihood Ratio Tests

<table>
<thead>
<tr>
<th>Likelihood Ratio Tests</th>
<th>Chi-square</th>
<th>df</th>
<th>Sig (one-tail)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>6.949</td>
<td>7</td>
<td>0.071</td>
</tr>
<tr>
<td>DER</td>
<td>-7.355</td>
<td>7</td>
<td>0.0035</td>
</tr>
<tr>
<td>CR</td>
<td>26.452</td>
<td>7</td>
<td>0.0265</td>
</tr>
<tr>
<td>ROA</td>
<td>5.576</td>
<td>7</td>
<td>0.024</td>
</tr>
<tr>
<td>CON_A</td>
<td>2.78</td>
<td>7</td>
<td>0.0425</td>
</tr>
</tbody>
</table>

*Source: Processed Data*

**Effect Leverage on Bond Ratings**

SPSS version 23 output results in Table 4 show that the variable leverage proxied by DER has significance value of 0.0035 (0.007 / 2). The number is smaller than the number of significance of 5% (0.05) The results indicate that the bond ratings
of financial companies affected by the number of debt to equity ratio. Based on these results, the Ho is accepted and declined Ha, stating that the variable leverage as measured by debt to equity ratio effect to the bond rating. In Table 4 shows the regression coefficient of -7355 is negative, this gives the conclusion that the independent variable leverage a significant negative effect on the dependent variable. Thus first Hypothesis is supported.

The results of this study are consistent with previous studies conducted Veronica (2015) about the factors that affect the bond ratings on manufacturing companies. Results of research conducted by Veronica showed that significantly leverage ratio can be used to predict the bond rating. Maisaroh, Lau, and Masithoh (2016) about the factors affecting the banking bond ratings listed on the Stock Exchange in 2010-2015. Their results showed that leverage significant effect on bond ratings.

Companies are able to manage its debt properly, it will generate profit. Income generated would certainly impact on the company's capital increase. But on the contrary if the company is unable to manage its debt properly, it will cause further down the capital of the company.

This study show that leverage negatively effect on bond ratings. Lina (2010) show that the capital reduction will cause the higher the leverage ratio, the higher the leverage ratio means that most of the assets funded by debt. The condition causes the company exposed to default risk or a low bond rating. Thus, the lower the leverage, the higher the ratings given to the company. Moreover, related to signal theory, the provision of bond ratings were expected give signal for company's financial condition and describes the possibilities that may occur related to the debt owned. So in this case the leverage ratio can be used as a signal for investors in making decisions to invest in financial companies because of the leverage ratio affect the bond ratings.

**Effect of Liquidity on Bond Ratings**

The result shows the significant value generated is equal to 0.0265, less than 5% (0.05). The results of this statistic means that second hypothesis is supported, means that liquidity has positive effect on bond obligation.

The results of this study are consistent with previous research conducted by Veronica (2015) about the factors that affect the bond ratings on manufacturing companies. Results of research conducted by Veronica indicate that significant liquidity ratios can be used to predict the bond rating.

In this study it can be concluded that the greater the cash ratio effect on bond ratings. True (2010) states that a high level of liquidity will demonstrate strong financial condition of companies that financially affect bond ratings predictions.

Companies are able to meet its financial obligations on time means the company is in a liquid state and have liquid assets such as cash and cash equivalents is greater than its current debt. The greater the cash ratio, the better the performance of the company so that the bond ratings will also be good.

Related to signal theory, according Ginting (2010) for the provision of information posted bond ratings were expected to be a signal the company's financial condition and describes the possibilities that may occur related to the debt owned. So in this case the ratio could be used as a signal for investors in making decisions to invest in financial companies because of the liquidity ratio effect on bond ratings.

**Profitability and Bond Ratings**

The result shows that profitability has a significance effect on bond ratings. The
significant value generated variable profitability amounted to 0.024, less than 5% (0.05), then Ho is rejected. Table 4 shows the regression coefficient is positive, this gives the conclusion that the profitability has positive effect on bond rating. Thus hypothesis 3 is supported.

This result consistent with previous studies (Veronica, 2015) that show the positive effect profitability on bond rating. It also can be concluded that the higher profitability of the better bond ratings. According to Kashmir (2014), profitability is a ratio to assess the company's ability to seek profit. A company with a high return on assets should be able to earn money for their capital markets offer better returns to potential investors. This is what makes profitability as one of the criteria in the rating of the bonds. The greater the profitability ratio, the better the performance of the company so that the bond ratings will also be good.

Related to signal theory, Ginting (2010) show that the provision of information posted bond ratings were expected to be a signal the company's financial condition and describes the possibilities that may occur related to the debt owned. So in this case the profitability ratios can be used as a signal for investors in making decisions to invest in financial companies because of the profitability ratios affect the bond ratings.

The Effect of Accounting Policy on Bond Ratings

Table 4 show that the accounting policy has a significance value of 0.0425, less than 5% (0.05). Based on these results, then Ho is rejected. Fourth hypothesis states that the accounting policy variables measured by accounting policy has a positive effect on bond ratings, and the coefficient 2.780 is positive, this gives the conclusion that the accounting policy has positive effect on bond rating.

Actually, this results are not consistent with a previous study (Septyawanti, 2013 and Suharli, 2008) that shows that accounting conservatism does not give any effect on bond rating. It can be concluded that the lower the accounting conservatism then the better the bond rating. Arrozi (2012) say that each company's can choose the accounting method. Out accounting standard allow each companies choose accounting method as they want it. The different of application accounting methods will produce different figures in the financial statements to be bias and this causes accounting policy did not affect the bond ratings.

The analysis examines whether there are economic consequences to the rating changes that arose from depreciation method. The result in Table 4 are consistent with the idea that there were economic consequences to the rating changes induced by depreciation method change. The result consistent with the argument that the rating changes provide new information about the credit quality of the firm, and one of the cause is accounting policy changes. Firms that change their policy has implicit purpose, one of that to manage their performance, for instance, by changing the depreciation method will have an impact on earnings. As we all know, profits are a major component of rating assessments, thereby changing accounting methods will impact on bond rating changes.

CONCLUSION, LIMITATION AND SUGGESTION

Conclusion
Based on results above, the conclusion as below:
1. The leverage negatively affect on bond ratings
2. The liquidity positively affects on bond ratings
3. The profitability of positive effect on bond ratings
4. The accounting policies positively affects on bond ratings

Limitation
The number of samples limited because some firms have not published their financial statement. Even tough, I already check the representativeness of sample for population.

Suggestion For Further Research
For further research is expected using another industries as sample such as manufacture, or properties. And use a longer period of observation (over 5 years) to increase generalization. Furthermore, next study should consider other variables such as the guarantor of the issuer, applicable regulations, and a sample of other rating agencies such as PT Kasnic Credit Rating Indonesia.

REFERENCES
Empirical Evidence Of The Role Of Accounting Policy On Bond Rating To Financial Companies Listed In Indonesia Stock Exchange


