ABSTRACT

Indonesia is facing the biggest crisis in 1997-1998. The crisis made some banks liquidated. These events made the government more cautious in setting regulations and banking policy. On the other hand, as a financial institution, the bank needs funds to run his business. Bond is one of the preferred source of financing not only by issuers but also by investors. However, investors will face the default risk due to an inability bondholder to fulfill its obligation to bond issuer. Bond rating were issued by the rating agency is a great alternative for investors in assessing the potential risk of default that will be encountered.

This research investigated the effect of corporate governance mechanism to the firm's bond rating, by using sample of 81 corporate bonds, especially banking industry for the period 2008-2011. Data are collected by Indonesia Stock Exchange and PT. Pemeringkat Efek Indonesia. Statistical tests used are Ordinal Logistic Regression. the results showed that bond rating is: (1) not effected by the number of shares owned by blockholder and institutional investors, and the number of independent Commissioner in the structure of Board membership. (2) negative significant to the number of independent Commissioner and other independent parties in the structure of Audit Committee membership .

Keywords: corporate governance, rating obligation, board structure, audit committee