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**THE ENCUMBRANCE OF INSTITUTIONAL INVESTOR AND  
BOD IN REDUCING RISK OF DEFAULT**

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*Abstract*

Sukuk yields mimic those of conventional bonds due to having similar features. This motivated the study. Sukuk are shariah-compliant securities that offer different structures to those of conventional bonds. Therefore, it is believed that the spreading of yields should also be different. The presence of key institutional investors/owners and certain BOD characteristics as highlighted by the Malaysian Code on Corporate Governance (MCCG) may influence the yield to maturity (YTM) of conventional bonds and sukuk. Thus, the main objective of this study is to investigate the relationship between these two yield spreads instruments with corporate governance mechanisms. The data is obtained from firm issuers' annual reports, the Bondinfo Hub of the Malaysian Central Bank, the Rating Agency Malaysia (RAM), the Malaysian Department of Statistics and Bloomberg databases for the period beginning 2000 to 2014 for 256 and 405 tranches of long-term and medium-term issuances of conventional bonds and sukuk respectively. The most significant findings show that the presence of top-six and other institutional ownerships as corporate governance mechanism proxy insignificantly and significantly reduce yield spreads within the firm revealed by OLS and random effects models in long-term and medium-term issuances. With respect to BOD characteristics, only BOD role duality and BOD size have a significant relationship with yield spreads. The study, therefore, proposed that the higher presence of institutional investors and BOD compliance to MCCG are able to reduce the risk of default risk.

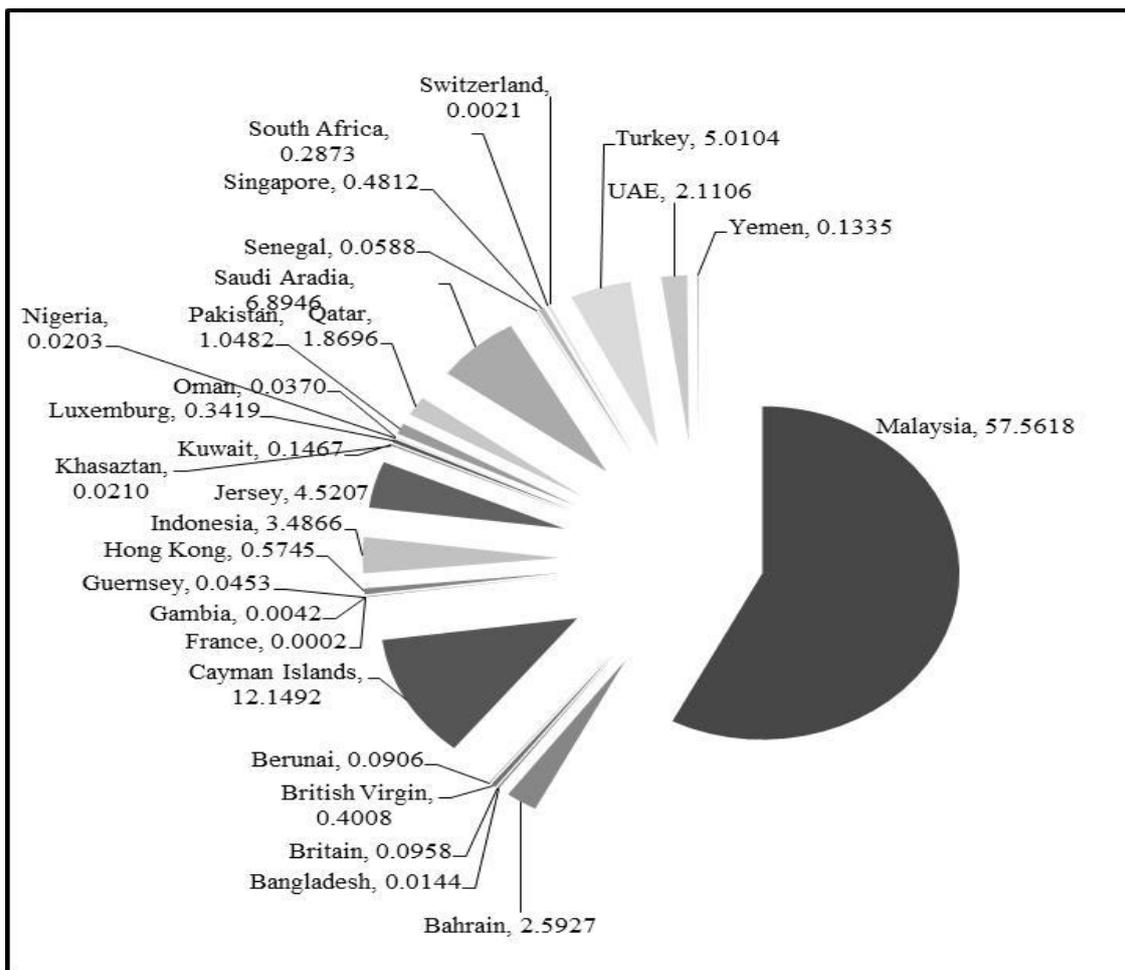
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**Keywords:** Institutional ownership, board of directors, yield spreads, robust, default risk.



## 1. Introduction

Firms and even governments are sometimes faced with the problem of scarcity of funds to finance profitable investments and promote economic development. The massive amount of funding required for these purposes is unlikely to be serviced by commercial banks. One way to raise funding is from financial institutions and public through the issuance of debt instruments. The instruments used are the sale of bonds, shares, and other forms of debt and equity, both in conventional and Islamic systems. The source of funding for such projects is from the public via the capital market which is a platform for trading of these financial instruments. The increasing demand from the public sector for innovative forms of finance continues to fuel the development of Malaysia's debt securities market. Growth has also been spurred by the increasing presence of institutional investors, such as pension funds, unit trust funds and insurance companies. Another notable achievement is the successful promotion of the Islamic capital market in the form of sukuk securities which comply with shariah principles, have played a major role in Malaysia's capital market development, contributing to the significant growth of the country's Islamic financial system. This market has enjoyed enormous growth whereby USD1.814 trillion of assets are being managed in a shariah-compliant manner as of the year 2014 with the potential to increase to USD3.247 trillion by the year 2020. Out of this value, there was USD295 billions of sukuk outstanding as of the end of 2014 (Thomson Reuters, 2015). Also, the Malaysian corporate bond market represented 37% of the country's Gross Domestic Product (GDP) in 2004 and by this measure; it becomes one of the largest in the world (IMF, 2005). In 2014, Malaysia had a total sukuk issuance for MYR657 billion and leads the market with 57.6% of total sukuk issued from among 28 countries (Bloomberg data, 2015). Even though the sukuk market is relatively new as opposed to the bond market for public listed firms with the first issued in 1990 by Shell MDS through issuing Al-bai Bithaman Ajil (BBA) sukuk worth MYR125 million in Malaysia (IIFM, 2012), it has recorded significant growth from year to year. This growth has raised the question whether sukuk can play the role of an alternative source of financing and investment which might replace or substitute conventional bonds (Said & Grassa, 2013; Naifar, 2016). The decision for the choice of debt financing needs to be analysed further on the yield to maturity (YTM) spreads (the difference in yield between the issuance tranche with Malaysian Treasury Bills for the same maturity of year period) for lesser risk in terms of default risk to the issuer.



Source: The Author's calculation from data on the value of country issuances obtained from Bloomberg.

**Figure 01.** The Percentage of Sukuk Size Issuances (in MYR) by Country, 2000 – 2014

The remainder of this introductory section is organised as follows. Section 2 offers a brief issue and problem statement. Next, sections 3 and 4 highlights the research questions and purpose of the study. Then, the research methods and findings are discussed in section 5 and 6 before concluding with some recommendations in section 7.

## 2. Problem Statement

Sukuk, a relatively new asset class in global capital market, is facing a new challenge in the form of sukuk defaults like conventional bonds (Naifar & Mseddi, 2013), rather than structural problems or compliance with shariah law (Mat-Radzi & Muhamed, 2012). Therefore, an analysis of debt yield spreads as a measure of default risk is an important issue in investment since this is one, if not the only, key factor in determining the cost of external financing borne by the issuer of debt securities. The inability to meet interest obligations and the redemption of the principal when they become due will not only tarnish the issuing firm's corporate image, but more importantly, this will project a crisis of confidence among investors on the financial performance of the firm managed by the BOD. This situation leads to the discussion on the agency theory with respect to the separation of control and ownership and the issues arising from the agency cost of debt. Typically, higher cost of debt is associated with higher yield spreads

which intuitively denote higher default risk among the issuer firms. In listed issuer firms, the growing dominance of equity holdings by institutional investors, both domestic and international, has recently sparked a debate on their role as effective shareholders in the monitoring of firms' performance and enforcing good corporate governance (Davis, 2002). Here, many researchers focused on the impact of corporate governance mechanisms on bonds yield spreads performances whereby most studies did not distinguish them from sukuk (for instance; Bhojraj & Sengupta, 2003; Shailer & Wang, 2015; Akdogu & Alp, 2016). Thus, the outcome of these analyses may not be appropriate considering that the sukuk market has greatly developed and has come out with various sukuk products with unique features which are clearly distinguish its structure from conventional bonds. Therefore, the impact of corporate governance mechanisms on the yield spreads of sukuk might be different from conventional bonds in medium-term and long-term issuances if the yield spreads between the two debts are not the same. Moreover, the presence of institutional ownerships and the BOD in corporate governance mechanisms will likely have a significant relation with medium-term and long-term conventional bonds and sukuk yield spreads among public listed issuers in Malaysia. Alternatively, one may also expect that the way corporate governance mechanisms impact the yield of sukuk is no difference to that of conventional bonds.

### **3. Research Questions**

Two main research questions can be asked to achieve the research objectives as follows

- 3.1.** Does the presence of institutional ownerships have any relationship with the yield spreads of both medium-term and long-term conventional bonds and sukuk?
- 3.2.** Does BOD characteristics of the issuer have any relationship with the yield spreads of both medium-term and long-term conventional bonds and sukuk?

### **4. Purpose of the Study**

Considering the issues raised in the preceding section, this study focuses on the differences in yield spreads between conventional bonds and sukuk and the relationship of institutional ownerships and BOD in corporate governance mechanisms towards yield spreads as a default risk for public listed issuer in Malaysia. The research objectives are summarised as follows:

- 4.1.** To examine the relationship between the presence of institutional ownerships in conventional bonds and sukuk issuers with their yields spreads in medium-term and long-term issuances.
- 4.2.** To examine the relationship between BOD characteristics of the issuer with conventional bonds and sukuk yields spreads in medium-term and long-term issuances.

### **5. Research Methods**

This study uses secondary data. The data gathered from various sources including Bank Negara Malaysia, RAM, SC, Bloomberg and Department of Statistics, Malaysia. Specifically, Data are retrieved from Bondinfo Hub's website from BNM for issue characteristics for conventional bonds and sukuk including yield, number of tranches, issuer name, price of debt, issue date, maturity date, issue amount in MYR' million and debt instrument categories. The detailed of the variables used and its measurement as well as the data sources is presented in the table 01.

**Table 01.** Data Description, Proxy/Measurement, Predicted Sign and Sources of Data

No.	Variables	Description	Proxy/Measurement	Predicted	Data
<b>Dependent:</b>					
1	Yield Spreads	YTM	Max of YTM minus min of YTM of bonds & sukuk issues minus with T-bills on matched issuance date for long- and medium- term issued.		BNM, RAM & SC
<b>Independent:</b>					
<i>Institutional Ownerships:</i>					
2	Top-Six IO	Gov	The total percentage of share ownership by six institutional owners of public listed firms.	-	Annual Report
3	Others IO	All IO	The total percentage of share ownership by all inst. owners of public listed firms except top-6 IO.	-	
<i>BOD Characteristics:</i>					
4	BODR2	CEO & chairman	Dichotomous variable. 1 if combined position of CEO and chairman and 0 if separated position.	-	Annual Report
5	BODC	#of directors	Dichotomous variable. 1 if independent director less than 1/3 and 0 if independent director = @ > 1/3.	-	
6	BODS	#of director	Total number of directors in the firm.	-	
7	BODM	Muslim directors	Total percentage for number of Muslim directors over total number of directors.	?	
<b>Control:</b>					
8	Volatility	Price of debt	Maximum minus minimum price for each tranches of conventional bonds and sukuk.	+	BNM, RAM & SC
9	lnSize	Issue	log of amount of issue in MYR (millions).	-	
10	Tenure	Year	Maturity year period minus with issue year period.	+	
11	Profit	ROA	Net income divided by total assets.	+	Bloomberg
12	Leverage	TA/TE	Total assets divided by total equity.	-	
13	Firm Value	Tobin's Q	Total of market value of equity with book value preferred stock and book value of LTD/TA.	+	
14	Firm Size	lnTA	Log of total short-term assets and long-term assets.	+	
15	Sustain	SGR	Return on common shares equity times with one minus dividend payout ratio over 100.	-	
16	lnGDP	Current Prices	Log of current price of Malaysian gross domestic product for each year issued.	-	Misian Statistics

Next, all the data was sorted screened and matched. For missing data are then omitted. Therefore, the total usable observation data for the long-term debt instruments are 140 issuer firms with 256 tranches which cover from 2000 until 2014. In medium-term debt instruments, the total usable observation data are 160 issuer firms with 395 tranches from 2003 until 2014. Data on 2000 to 2002 were omitted due to being incomplete.

### 5.1. Theories and Hypotheses Development

First, separation of decision and risk-bearing functions becomes an effective common approach to controlling the agency problems (Fama & Jensen, 1983) whereby the practise has been documented in the firms' corporate governance code (MCCG, 2000; 2007; 2012; 2016). This code of best practise provides such recommendations to institutional investor for active monitoring and controlling cost direct to firms' management through BOD. These good recommendations of best practice are in consistent with the shariah law of Islamic principles (Abu-Tapanjeh, 2009). Second, institutional ownership theory posits that institutional investors can act as a monitoring and control agents to overcome the agency problem that arise from the issue of separation and control (Demestz, 1983) through their controlling and monitoring activities (Alireza & Ali Tahbaz, 2011). Thus, institutional investors are capable of influencing management

performance which is driven by their ownership rights and ability to carry out share trading (Gillan & Starks, 2003). Third, resource dependency theory is a major grounded theoretical in explaining about the BOD function that have an authority power on top management decision making for financing decision in reducing agency cost of debt (Pfeffer & Salancik, 1978; Marlin & Geiger, 2012).

In line with the agency and ownership theorists as well as the aforementioned empirical evidence, a hypothesis 1 and 2 is suggested as follows:

$H_1$  : Firms with greater presence of top-six institutional ownership have lower conventional bonds/sukuk yield spreads than firms with a lower presence of top-six institutional ownership in the long-term and medium-term investment.

$H_2$  : Firms with greater presence of other institutional ownership have lower conventional bonds/sukuk yield spreads than firms with lower presence of other institutional ownership in long-term and medium-term investment.

Then, this study developed the hypotheses 3 to 6 on the relationships between BOD characteristics with yield spreads of conventional bonds and sukuk to satisfy the third objective of the study. Many researchers remark that those board members who hold two positions face numerous problems. Judge et al. (2003) mentioned that CEO chairs the group of people in monitoring and evaluating the CEO's performance. Here, the conflicts of interest in the agency theory arise whereby the CEO monitors and evaluates his/her performance in that particular company. Furthermore, combined leadership structure in role duality is negatively related to firm performance (Judge et al., 2003) which supports the predictions of agency theory. Liu & Jiraporn (2010) found that the CEO who has more decision-making power was associated with higher yield spreads. Based on the abovementioned theoretical views and empirical evidence, it is hypothesised as follows:

$H_3$  : Firms with a separate board of directors' role duality have lower conventional bonds/sukuk yield spreads than firms with the combined board of directors' role duality in long-term and medium-term investment.

$H_4$  : Firms with more than one-third of independent directors have lower conventional bonds/sukuk yield spreads than firms with less than one-third of independent directors in long-term and medium-term investment.

$H_5$  : Firms with larger board size have lower conventional bonds/sukuk yield spreads than firms with less board size in long-term and medium-term investment.

$H_6$  : Firms with higher BOD Muslim have lower sukuk yield spreads than conventional bonds in long-term and medium-term investment.

## **5.2. Multivariate Panel Robust Regressions (MPRR)**

Testing the relationship among these variables considered as an estimations models for the MPRA used in this study. This model is developed based on debt instrument categories for long-term and medium-term conventional bonds and sukuk. Different types of issuances have a different effect on default risk. Besides, the effect in pooled OLS, within the firm as fixed effect or random effect is tested for each panel observation in conventional bonds and sukuk.

The OLS model has treated standard error of estimations represented by  $\mathcal{E}$  as identically and independently distributed disturbances that are uncorrelated with the correlations of standard error for independent variables,  $\mathcal{X}$ , or  $Cor(\varepsilon_i, X_i) = 0$ . In this case, the data can be pooled, and OLS can be used to estimate the model with denoting the estimator of the slope by  $\beta_{OLS}$ . The intercept and slope coefficients are constant across N and T represented by tranche issuances of each issuer which postulates that both the intercept and the slope are the same across observations. However, these assumptions might be restrictive and lead to heterogeneity bias needed to handle the robustness checks analysis. Otherwise, the model does not require any additional technique for such estimations. The regression model equation for pooled OLS can be represented as follows:

$$\begin{aligned}
 YieldSpreads_{it} = & \beta_{OLS} + \beta_{OLS_1}(Top - sixIO_{it}) + \beta_{OLS_2}(OthersIO_{it}) + \beta_{OLS_3}(BODR2_{it}) + \beta_{OLS_4}(BODC_{it}) + \beta_{OLS_5}(BODS_{it}) + \\
 & \beta_{OLS_6}(BODM_{it}) + \beta_{OLS_7}(Volatility_{it}) + \beta_{OLS_8}(InSize_{it}) + \beta_{OLS_9}(Tenure_{it}) + \beta_{OLS_{10}}(profit_{it}) + \beta_{OLS_{11}}(Leverage_{it}) + \\
 & \beta_{OLS_{12}}(FirmValue_{it}) + \beta_{OLS_{13}}(FirmSize_{it}) + \beta_{OLS_{14}}(Sustain_{it}) + \beta_{OLS_{15}}(\ln GDP_{it}) + \varepsilon_{it} \quad (1)
 \end{aligned}$$

Then, the fixed effect model used is when the constant value for each tranche of issuances, is correlated with the independent variables of the issuers for the year, and within variation in the data only, but is the most flexible in that it allows for the endogeneity of regressors. This model also treats as a constant value for each tranche of issuances. Where:

$\beta_{fe}$  = the coefficient estimates in fixed effect of the explanatory variables

$(\beta_{fe} + \lambda_i)$  = the intercept for fixed effect, and

$u_{it}$  = the error term for fixed effect.

With respect to the random effect model model, it assumes that the tranche of issuances has their intercepts while restricting the slope to be homogenous for yield spreads. Their spread is probably in random-effect as liquidity movement which required technique of these regressions as applied by Said, W.Suhaimi & Haris (2013) in their study. To accommodate such heterogeneity, the random-effect model decomposes the  $\varepsilon$  into two composite error term as,  $\varepsilon_{it} = \lambda_i + u_{it}$ .

### 5.3. Statistical Tests For Panel Model Selection

As discussed earlier, pooled OLS estimator is easy to use for estimating regression model but it does not capture the unobservable individual heterogeneity. In this case, fixed effect and random-effect estimators are used. This variety of approaches leaves the question about which model is the most appropriate in explaining the result for findings. This can be solved by performing two statistical tests on the regression model. These are the Breusch and Pagan Lagrangian Multiplier Test (BP-LM) and Hausman Test. The BP-LM test tests for the existence of individual specific variance component or heterogeneity whether the pooled OLS is an appropriate model or not in interpreting the result. This test is important to discriminate between the pooled OLS and Generalized Least Squared (GLS) or random-effect model. The presence of the individual specific term, which distinguishes between these models, is based on the following statistical hypotheses:

$$H_0 : \sigma_{\lambda}^2 = 0 \dots (\text{Pooled OLS}), \text{ and } H_a : \sigma_{\lambda}^2 \neq 0 \dots (\text{Random effects})$$

The Lagrangian Multiplier (LM) statistic follows the chi-squared distribution with one degree of freedom as shown by equation as follows:

$$LM = \frac{nT}{2(T-1)} \left[ \frac{T^2 \bar{e}' \bar{e}}{e' e} - 1 \right]^2 \sim \chi^2(1) \quad (2)$$

Where:

$\bar{e}$  = the  $n \times 1$  vector of the group means of pooled regression residuals,

$e' e$  = the goodness-of-fit measure or R-squared of the pooled OLS regression,

$\chi$  = the correlations of standard error for independent variables,

$T$  = the total periods, and

$n$  = the number of periods.

Therefore, if the null hypothesis is rejected whereby the p-value is less 0.01, 0.05 or 0.1, means that the random-effect model in unbalanced panel data is more appropriate than pooled OLS estimations since it is able to deal with heterogeneity (Breusch & Pagan, 1980; Baltagi, 2001). Even if they are uncorrelated with the regressors, the random-effect estimator will deliver a consistent estimator that is also efficient. However, the results may be inconsistent or biased. In such a case, the study runs the Hausman test. The test was developed by Hausman (1978) for the purpose to distinguish between random-effect and fixed-effect model. Therefore, the hypotheses can then be modified as follows:

$$H_0 : (\hat{\beta}_{fe} - \hat{\beta}_{re}) = 0, \text{ and } H_a : (\hat{\beta}_{fe} - \hat{\beta}_{re}) \neq 0$$

## 6. Findings

### 6.1. Descriptive Statistical Results

**Table 02.** The Results of Mean, Maximum and Minimum of Yield Spreads according to Debt Instruments Categories

Yield Spreads	LTB	LTS	MTCB	MTS
Mean	2.44	1.95	1.43	1.69
Max	7.33	18.06	4.98	5.16
Min	0.08	-0.52	0.02	-0.2

The minimum value trend demonstrates a similar pattern to the mean value. Meaning that all the issuances tranche have competitive rate of yields during the contract initiated. However, only MTCBS, LTB, MTCB and MTS show a similar pattern for maximum value. But, the LTCBS and LTS show different patterns indicating a very high cost showed by value of yield spreads from LTS at 18.06%. Notably, the yield is refers to the different of maximum and minimum value for YTM which indicates the range of yield spreads. The finding is consistent with the theory of term structure of interest rate whereby longer periods have higher interest rate hence wider range of spreads are associated with higher default risks.

## 6.2. Statistical Selection Tests Results

As a result of LTCB, the BP-LM test show that chibar-squared is 1.290 with the probability is an insignificant result. Thus, the null hypothesis failed to be rejected suggesting that the pooled OLS model is more appropriate than random-effect model. This denotes that pooled OLS model is better suited for such analysis whereby the assumption of pooled OLS model about the error term leading to have serial correlation between observations and might be in the presence of unobservable individual heterogeneity are applied in this sample. Since the pooled OLS model has been selected, the model does need to be compared with the fixed effects model using the Hausman test. It is also not required to perform heterokedasticity diagnostic check test since the model has the ability to rectify the presence of unobservable individual heterogeneity. Therefore, the results from pooled OLS model are better suited for the analysis in LTCB. As for LTS, the null hypothesis is rejected suggesting that the random-effect model is more appropriate than pooled OLS model. Consequently, BP-LM test confirms that RE robust model estimator is the selection model and as regards to the result of Hausman test, the chi-squared is 22.120 indicates insignificant result lead the decision to reject the null hypothesis.

**Table 03.** The Results of BP-LM, Hausman and Heterokedasticity Test

Panel	Model	Test				Model	Diagnostic Checks		Most Appropriate Model
		BP-LM		Hausman			Heterokedasticity		
		Chibar-squared	Prob.	Chi-squared	Prob.		Chi-squared	Prob.	
A: LTCB	OLS	1.29	0.128	-	-	OLS	156	0.000	OLS
	RE FE	-	-	73.46	0.000				
B: LTS	OLS	6.62	0.005	-	-	RE	965	0.000	RE Robust
	RE FE	-	-	22.12	0.105				
C: MTCB	OLS	1.87	0.086	-	-	OLS	9800000	0.000	OLS
	RE FE	-	-	87.58	0.000				
D: MTS	OLS	74.38	0.000	-	-	RE	110000	0.000	RE Robust
	RE FE	-	-	23.61	0.072				

Thus, the test confirms that random-effect for regression estimations model is the most appropriate compare with fixed-effect model in analysing the relationship of yield spreads towards their determinants. Pertaining to the selection model tests result for MTCB, the BP-LM test show that the chibar-squared is 1.290 with the probability is insignificant result. Thus, the null hypothesis failed to be rejected suggesting that the pooled OLS model is more appropriate than random-effect model. The result concludes that the RE robust model is the most appropriate model in analysing the relationship between yield spreads and its explanatory variables for MTS.

## 6.3. Robust Regression Analysis

Table 04 shows the overall results of model selection with significant relationship between institutional ownerships with the yield spreads for all terms of conventional bonds and sukuk issuances.

With respect to other institutional ownerships, there are mixed and inverse results revealed by conventional bonds and sukuk. There are 2 panels' data are met with the hypothesis developed, for instance; panel B and C for others institutional ownership but none for top-6. Implying that, the presence of other institutional ownerships is significant to reduce yields spreads in long-term sukuk and medium-term conventional bonds issuance.

The overall results of relationship between BOD characteristics with the yield spreads for all terms of conventional bonds and sukuk issuances have significant impact. With respect to the BOD role duality, its show a significant relationship with panel B and C. Vindicating that, the separation role between chairman of directors and CEO are important determinants towards sukuk in long term, otherwise conventional bonds for medium-term issuances. Otherwise, this separate position is significant to the issuer in mitigating default risks when the medium term sukuk and long term conventional bond' issued. Next, BOD composition shows insignificant relationships towards yield spreads in all types of debt issuances for conventional bonds or sukuk. Thus, the hypothesis 4 is rejected. As regards to BOD size shows that panel C and D have significant relationships towards yield spreads. Means, BOD size becomes very important determinants to yield spreads especially in medium-term for both issuances either conventional bonds or sukuk. With respect to the BOD Muslim, unpredictably, higher numbers of Muslim directors have significant relation with yield spreads of conventional bonds issuances for both long-term and medium-term. In contrast, sukuk' yield spreads indicate insignificant relationship with BOD Muslim.

**Table 04.** The Results of Robust Regression

Debt Instrument	Panel A: LTCB	Panel B: LTS	Panel C: MTCB	Panel D: MTS
Dependent variable: Yield Spreads				
Explanatory variables	Model			
	OLS	RE Robust	OLS	RE Robust
Intercept	-0.307	4.881	21.030***	31.350***
<b><i>Institutional Ownerships:</i></b>				
Top-six IO	0.001	-0.079	-0.001	0.001
Others IO	0.01	-0.110*	-0.010**	-0.003
<b><i>Board of Directors Characteristics:</i></b>				
BODR2	0.662	3.249**	0.484*	-0.407
BODC	-0.209	0.609	0.093	-0.167
BODS	0.076	0.063	-0.076**	0.120**
BODM	0.018*	-0.037	-0.015***	-0.005
<b><i>Issue Characteristics:</i></b>				
Volatility	0.03	0.262**	0.243**	0.005
lnSize	-0.095	-0.198	-0.148**	-0.062*
Tenure	0.003	0.074**	0.034	0.113***
<b><i>Issuer Characteristics:</i></b>				
Profit	0.072*	-0.129	-0.100***	0.028
Leverage	-0.062	0.857*	-0.048**	0.056
Firm Value	0.068	0.819	0.392**	-0.840**
Firm Size	0.008	-0.493	0.031	-0.069
Sustain	-0.024	0.124	0.025**	0.001***

<b>Systematic Risks:</b>				
InGDP	0.082	0.275	-1.289***	-2.159***
Firm fixed effects	No	No	No	No
No of observations	112	144	157	244
R-squared	0.2503	0.5349	0.4963	0.544
Adj R-squared	0.1331	-	0.4427	-
Model Fit (F-stat)	2.14**	-	9.26***	-
F-test	-	-	-	-
Wald-chi-squared	-	58898.15***	-	442.97***

## 7. Conclusion

In the overall category, the presence of top-six institutional ownerships is unable to reduce default risks facing the issuer; however, the presence of other institutional ownerships can reduce default risks among issuers who issue sukuk for long-term issuances and conventional bonds for medium-term issuances. BOD characteristics such as role duality, the number of directors and director's religion appear to be significant determinants in influencing yield spreads except for the composition of independent directors in the firms. These findings offer recommendations to the issuer as well as institutional investors and the BOD. Firstly, recommendations focus on public listed issuer since they are actively involved in the capital market by issuing debt to the public. In long-run investment, they are encouraged to issue sukuk as compared to conventional bonds since the default risk is low. This justifies that the cost of sukuk is lower than the cost of debt in long-term issuances since spreading in sukuk yields is lower as riba or uncertainty elements is avoided. Secondly, the presence of institutional ownerships in the issuer firms has a relationship with high-low yield spreads. Their presence would enhance effective monitoring and control in the firm's decision-making, especially in financing matters. Thirdly, to avoid abuse of power, biased decision and conflict of interest, the separation role between chairman and CEO to a different person is important even though the duties and responsibilities of this position are clearly highlighted in the MCCG. If it is still required, they not only need to follow the job descriptions of the position respectively but more importantly need to comply with Islamic principles especially Muslim BOD.

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