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ISLAMIC BOND ANNOUNCEMENT: THE RELATIONSHIP BETWEEN ISLAMIC DEBT CHARACTERISTICS AND STOCK RETURN

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Abstract: *This study attempts to examine whether Islamic debt characteristics, Islamic debt issuance frequency, Islamic debt type, and firm performance create a wealth effect to shareholders and/or investors when issuing Islamic debt. Using a quarterly balanced panel of 80 Malaysian firms and 20 Indonesian firms issuing Islamic debt which spans from 2000 to 2009; this study employs a the generalised least square (GLS) and the ordinary least square (OLS) for Malaysian and Indonesian data respectively for robustness according to specification testing results. The findings for Islamic debt characteristics' impact on stock return reveal that the Islamic debt characteristics, which are debt to equity ratio and firm size, have a positive and significant impact on shareholder wealth, while Islamic debt offering size and maturity have no significant impact on shareholders' wealth for Malaysia. For Indonesia, the result is similar to the result obtained for Malaysia except for debt equity ratio and firm size which have positive and significant impacts. With regards to the frequency and types of Islamic debt issued, only the first issuance of Islamic debt and Islamic debt-types have a positive and significant impact on shareholders' wealth for Malaysia and Indonesia, with exception that there is no debt-type for Indonesia. In terms of the firm value and/or firm financial performance; higher firm value or firm financial performance of firms issuing Islamic debt has a positive and significant impact on shareholders' wealth for Malaysia and Indonesia.*

Key words: *Islamic debt announcement, Islamic debt characteristics, stock return, firm performance*

JEL Classification *G12,G32*

1. INTRODUCTION

Recently, there has been growing interest in Islamic instruments such as Islamic debt. The growing interest can be seen through an increase in the number and diversity of Islamic instruments issued. Moreover, the Islamic instruments are also available in

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non-Muslim countries such as the United Kingdom, and HongKong. Islamic debt became increasingly popular for the last decade as companies sought to raise funds by offering corporate Islamic debt (sukuk). It has become significant for raising funds in the international capital markets through Islamic law (shariah). Islamic debt has also become a topic of research interest in Islamic finance since the financial crisis which affected major countries and firms around the world.

Furthermore, Islamic instruments are regarded as a solid instrument choice and are taken into consideration in the investment decision. Most companies now also consider having Islamic instruments in their capital structure choice and their investment choice. Not only has the growing number of Islamic instruments attracted much attention, but the acceptance of Islamic instruments in non-Muslim has also attracted much scholarly attention, particularly in the area of its regulations and structures.

In Middle East countries, Islamic financial instruments are not considered something unusual and new as Islamic financial instruments are a central part of their financial industry and are well-established. In Asia, particularly the South East Asian region, Malaysia and Indonesia are countries that have a Muslim majority. The Islamic finance industry first began with the formation of an Islamic bank, but after several years, the Islamic finance industry widened its scope by establishing other Islamic financial institutions and instruments including Islamic insurance, Islamic stocks, Islamic bonds, Islamic mutual funds, Islamic wealth management, and so on. These components working unitary and support each other, hence they grow side by side. In Malaysia, the Islamic capital market has become established and their products have been growing tremendously, particularly Islamic debt.

Furthermore, Malaysia, as one of the pioneering places of Islamic instruments, 'has paved the way for the growth of the global Islamic finance and capital market in designing its framework and regulations. Moreover, Malaysia is known as the biggest issuer of Islamic debt and the most successful country in developing the Islamic finance industry. The factors contributing to the success of the Malaysian Islamic finance industry lie in the integration of key structural components, namely the Islamic banking sector, the Islamic debt capital and equity market, the Islamic money market, the takaful industry and many other peripheral Islamic institutions, and its regulatory infrastructure, including its liberalization and provision of incentives to promote the Islamic fund management industry. In addition, Malaysia is the first country to issue bonds on an Islamic basis.

Unlike Malaysia, Indonesia has just begun implementing Islamic financial instruments, starting in the early 1990s. The first Islamic finance entity established is Islamic banking, Muamalat Bank. This bank was initially established as a pure Islamic bank. Later on, the development of Islamic banking in Indonesia was implemented under a dual banking system in compliance with the Indonesian Banking Architecture (API). Islamic banking and conventional banking systems jointly and synergically

support a wider public fund mobilization in the framework of fostering financing capability of national economic sectors. As time passes, the needs of the Islamic financial supports arise, for example; Islamic stocks, Islamic debt and Islamic insurance. In the context of macroeconomic management, an extensive use of various Islamic financial products and instrument will help to connect the financial sector and real sector, creating harmonization between the two sectors. In addition to supporting financial markets and businesses, the wide use of Islamic products and instruments will also reduce speculative transactions in the economy, assisting in the stability of the overall financial system.

This study focuses on Islamic debt in Malaysia and Indonesia, with a particular focus on how this instrument adds value to the firm and increases the wealth of the firm's owner. This study makes substantive contributions to the financial understanding of Islamic debt instruments. The analysis is novel in that it breaks away from the typically religious discussion of instruments and the very detailed prescriptive approach. It provides a considered and carefully crafted micro-econometric analysis of market data built upon detailed diagnostic testing and robust model building. This study points the way for future Islamic capital market-based analysis

Furthermore, this study uses micro-econometric analysis to examine the impact of Islamic debt on firm value and firm financial performance by observing two groups, namely Malaysian firms and Indonesian firms. The study in particular considers the relationship between Islamic debt characteristics and stock return. A number of significant contributions to corporate finance arise from this study in relation to Islamic debt instruments and firm financial performance. First, it provides of the Islamic debt characteristics' impact on stock return when issuing Islamic debt. Second, and very importantly it provides new insights, adding substantially to the very few studies that have been conducted on these types of instruments. It is expected that the empirical results from this study will be a starting point for significant future research on similar instruments.

2. LITERATURE REVIEW

The relationship between debt issues and shareholders' wealth has been investigated by many researchers, but there are few studies which examine this issue in relation to Islamic financial instruments, as the focus has been solely on the legal aspect of Islamic debt. However, there are some studies that might be of interest to issuers and investors as these studies examine risk, and also propose a model to construct Islamic financial benchmarks. Cakir and Raei (2007) assess the impact of sukuk issuance based on the cost and risk structure using Value at-Risk (VaR) compared to Eurobond. The application of Cakir and Raei's comparative study is limited to international issues of sukuk and conventional debts by the governments of Malaysia, Pakistan, Qatar, and Bahrain. Cakir and Raei suggested that the correlations of sukuk returns with conventional debts returns are smaller than the correlation of conventional debts returns only.

Furthermore, Mirakhor (1996) proposes a benchmarking of Islamic instruments to measure the cost of capital of Islamic investments and to evaluate the efficiency of Islamic investments. The uniqueness of his model is his omission of the fixed and predetermined interest rate. That is, he bases his model on Tobin's q formula, but omits the debt instrument. Mirakhor did not mention previous research discussing this subject matter except that of Khan and Mirakhor (1989) who examine the rate of return of Islamic investments' benchmarking based on the economics' real sector for investment decisions. However, Mirakhor mentions that a fixed and predetermined rate of interest should be omitted in order to measure the cost of capital. In addition, Somolo (2009) proposes a method to determine the cost of capital of Islamic investments without using the London Interbank Offered Rate (LIBOR) as a benchmark based on Capital Asset Pricing Model Theory.

These studies notwithstanding, research focusing on the relationship between Islamic debt and shareholders' wealth is still few (Ashhari et al., 2009; Ibrahim & Minai, 2009). The study of Islamic debt has become an important aspect of Islamic finance as there has been growing interest in Islamic finance. Ashhari et al. (2009) investigate the impact of Islamic debt characteristics on shareholders' wealth. They use four explanatory variables such as Islamic debt offering size, Islamic debt maturity, debt ratio and firm size. The result reveals that only Islamic debt offering size is significant but negative. Furthermore, Ibrahim and Minai (2009) also investigate the impact of Islamic debt characteristic on shareholders' wealth; however, they add more explanatory variables in their regression model. They used seven explanatory variables such as firm size, free cash flows, Islamic debt offering size, Tobin's Q, leverage, the compliancy to Islamic law, and securities commission approval. The result reveals that only Islamic debt offering size, Tobin's Q and securities commission approval yield a significant negative on shareholders' wealth. This result is somewhat similar to the study by Ashhari et al. (2009), in which the Islamic debt offering size is significant negative on shareholders' wealth.

The impact of Islamic debt characteristics, namely bond offerings size, the Islamic debt maturity, the debt ratio and firm size, on the cumulative average abnormal return (CAAR) has been investigated by Ashhari et al. (2009). A testable hypothesis is derived as follows:

H_{1a} *: Islamic debt characteristic is positively associated with the CAAR.*

The impact of Islamic debt issuance frequency and Islamic debt type on the cumulative average abnormal return (CAAR) has been investigated by Ashhari et al. (2009). Testable hypotheses are derived as follows:

H_{2a} *: The market reacts positively to the more frequent issuance of Islamic debt*

H_{3a} *: The market reacts positively to the type of Islamic debt issued.*

The capital structure study has been a topic of interest. It has been argued that profitable firms are less likely to depend on debt in their capital structure than less profitable ones. The more profitable firms have less debt than less profitable ones

(Nivorozhkin, 2002). In addition, firm value and firm financial performance may also affect the choice of capital structure. Berger and Bonaccorsi di Patti (2006) stipulate that more efficient firms are more likely to earn a higher return for a given capital structure, and that higher returns can act as a buffer against portfolio risk so that more efficient firms are in a better position to substitute equity for debt in their capital structure. Hence, under the efficiency-risk hypothesis, more efficient firms choose to lower the costs of bankruptcy and financial distress. In essence, the efficiency-risk hypothesis is a spin-off of the trade-off theory of capital structure whereby differences in efficiency, all else equal, enable firms to fine-tune their optimal capital structure. The testable hypothesis for Islamic debt and stock price is:

H_{4a} : Firm value of firms having Islamic debt is positively associated with stock price.

This study attempts to provide new evidence on how Islamic debt issues impact on shareholders' wealth by extending the explanatory variables, the number of samples used, and the period of observations. Furthermore, previous studies have failed to consider econometric models which are robust, an omission that this study attempts to address.

3. METHODOLOGY

3.1. Data

Data employed in this study are obtained from the Islamic Finance Information Service (IFIS) database. The sampling period is 2000 to 2009, which is ten years Due to the data availability, the size of the offering, the maturity length, the history of the issuance, and other accounting data information only 80 Malaysian firms and 20 Indonesian firms are used in this study. Malaysian firms are referred to as group 1 in this study and Indonesian firms are referred to as group 2.

3.2. Variables

The cumulative average abnormal return is dependent variable. This variable is calculated using two abnormal return benchmarks; namely, mean adjusted return and market model return.

Islamic debt frequency and Islamic debt type are used as dependent variables for the first equation. Islamic debt offerings size, Islamic debt maturity, debt to equity ratio and firm size are used as dependent variables for the second equation. Firm performance (Tobin's Q, EVA, ROA and ROE) is used as the dependent variable for the third equation. Table 1 provides a description of the research variables.

3.2. Model Analysis

A Multivariate Regression Model (MVRM) is used to measure the effect of new information on asset prices. The MVRM methodology begins by parameterising the abnormal returns in the individual return equations (Binder, 1985, 1998):

Table 1
Description of variables

Variables	*Acronym*	*Description*
Dependent Variable: Cumulative Average Abnormal Return	CAAR (Y)	The daily abnormal return across firms.
Explanatory variables: Islamic debt frequency	IDFREQ (X)	The frequency of the Islamic debt issuance.
Islamic debt type	IDTYPE (*X*)	The type of Islamic debt issued.
Islamic debt offerings size	IDOS (*X*)	The ratio of Islamic debt size offering divided by total asset for the period prior to the announcement.
Islamic debt maturity	IDMAT (*X*)	The Islamic debt maturity length.
Debt ratio	D/E (*X*)	The ratio of total debt to total asset for the period prior to the announcement date
Firm size	SIZE (*X*)	The logarithm of the total asset.
Firm performance	FP (*X*)	Firm performance (Tobin's Q, EVA, ROA, ROE).

$$\tilde{R}_{it} = \alpha_i + \beta_i \tilde{R}_{mt} + \Sigma_{\alpha=1}^{A} \gamma_{ia} D_{at} + \tilde{u}_{it} \quad (1)$$

Using dummy variables D_{at} if there are A announcements about the event, each D_{at} equals one during the period of α th announcement and otherwise. When the explanatory variables in the return generating process are the same for each of the N stocks the system of return equations:

$$\tilde{R}_{1t} = \alpha_1 + \beta_1 \tilde{R}_{mt} + \sum_{\alpha=1}^{A} \gamma_{1\alpha} D_{at} + \tilde{u}_{1t}$$

$$\tilde{R}_{2t} = \alpha_2 + \beta_2 \tilde{R}_{mt} + \sum_{\alpha=1}^{A} \gamma_{2\alpha} D_{at} + \tilde{u}_{2t}$$

$$\tilde{R}_{Nt} = \alpha_N + \beta_N \tilde{R}_{mt} + \Sigma_{\alpha=1}^{A} \gamma_{Na} D_{at} + \tilde{u}_{Nt} \quad (2)$$

After testing the MVRM for each firm, this study applies joint hypothesis testing for all firms and all announcements, and then the portfolio return equation is:

$$\tilde{R}_{pt} = \alpha_p + \beta_p \tilde{R}_{mt} + \Sigma_{\alpha=1}^{A} \gamma_{pa} D_{at} + \tilde{u}_{pt} \quad (3)$$

To investigate the impact of Islamic debt offering (equation 1), the Islamic debt characteristics (equation 2) and firm performance (equation 3) on the CAAR, a multivariate regression model (MVRM) is employed. Hence, the MVRM formula for each part is as follows:

$$CAAR\ (-t, +t) = \alpha + \beta_1\ IDFREQ + \beta_2\ IDTYPE + \varepsilon \quad (1)$$

$$CAAR\ (-t, +t) = \alpha + \beta_1\ IDOS + \beta_2\ IDMAT + \beta_3\ D/E + \beta_4\ SIZE + \varepsilon \quad (2)$$

$$CAAR\ (-t, +t) = \alpha + \beta_1\ FP + \varepsilon \quad (3)$$

where:

$CAAR_{-t, +t}$: the cumulative average abnormal return at time -1 to +1, -3 to +3, -5 to +5, -10 to +10, -15 to +15.

IDFREQ : the frequency of Islamic debt issuance.

IDTYPE : the type of Islamic debt issued.

IDOS : the ratio of Islamic debt size offering divided by total asset for the period prior to the announcement.

IDMAT : the Islamic debt maturity length.

D/E : the ratio of total debt to total asset for the period prior to the announcement date.

SIZE : the logarithm of the total asset.

FP : firm performance (Tobin's Q, EVA, ROA and ROE)

Before proceeding to the model specification, diagnostic testing of normality, heteroskedasticity, multicollinearity, and autocorrelation, was conducted to determine the appropriate method used in this study. For group 1, there is a heteroskedasticity problem in equations, as the p-value is lower than the level of significance range from 1% to 5% significance level. Therefore, the regression method used for all equations has to encounter this problem. For skewness and kurtosis, the value for all equations is greater than 10% level of significance, suggesting that all the equations have a normal distribution. The value for multicollinearity is less than ten, suggesting no multicollinearity among the independent variables. The value of linearity for all equations is greater than 10% level of significance. Thus, the null hypothesis of linearity cannot be rejected and all the equations have linear functions. At last, there is no endogeneity problem found in all equations model (the results for all specification testing can be seen in Table 2). Therefore, the regression method employed for group 1 is Feasible Generalised Least Square (FGLS) regression.

Table 2
Specification testing results for group 1

	CAAR -1 to +1	*CAAR -3 to +3*	*CAAR -5 to +5*	*CAAR -10 to +10*	*CAAR -15 to +15*
Heteroskedasticity	0.0158	0.0207	0.0211	0.0200	0.0184
Skewness	0.1034	0.1052	0.1048	0.1052	0.1064
Kurtosis	0.2915	0.2931	0.2932	0.2931	0.2889
Multicollinearity	1.3300	1.3300	1.3300	1.3300	1.3300
Linearity	0.7163	0.6809	0.5084	0.5032	0.9494
Endogeneity	No endogeneity exist				

*** Sig. at 1% significance level, **Sig. at 5% significance level, *Sig. at 10% significance level

For group 2, there is no heteroskedasticity problem in all equations, as the p-value is greater than the level of significance range from 10% level of significance. For skewness and kurtosis, the value for all equations is greater than 10% level of significance, suggesting that all the equations have a normal distribution. The value for multicollinearity is less than ten, suggesting no multicollinearity among the independent variables. The value of linearity for all equations is greater than 10% level of significance. Thus, the null hypothesis of linearity cannot be rejected, and all the equations have linear functions. At last, there is no endogeneity problem found in all equations model (the results for all specification testing can be seen in Table 3). Therefore, the regression method employed for group 2 is Ordinary Least Square (OLS) regression.

Table 3
Specification testing results for group 2

	CAAR -1 to +1	*CAAR -3 to +3*	*CAAR -5 to +5*	*CAAR -10 to +10*
Heteroskedasticity	0.6150	0.6781	0.4345	0.3085
Skewness	0.4894	0.7949	0.2752	0.8736
Kurtosis	0.2310	0.2069	0.4880	0.6627
Multicollinearity	3.0500	3.0500	3.0500	3.0500
Linearity	0.9203	0.8003	0.2554	0.2358
Endogeneity	No endogeneity exist			

*** Sig. at 1% significance level, **Sig. at 5% significance level, *Sig. at 10% significance level

4. FINDINGS AND DISCUSSIONS

4.1. Descriptive Statistics

Table 4 and Table 5 provide the descriptive statistics used in this study for group 1 and group 2. The sample consists of 80 listed firms issuing Islamic debt for the period of 2000 to 2009. Table 7.3 depicts the number of observations, the mean, the standard deviation, and the minimum and maximum value of each variable. The dependent variables are CAAR -1 to +1, CAAR -3 to +3, CAAR -5 to +5, CAAR -10 to +10, CAAR -15 to +15, and each dependent variable is regressed toward its explanatory variables. However, due to incomplete data for all the firms, CAAR -15 to +15 is omitted for group 2. Further, due to the fact that group 2 contains no instances of more than two issuances of Islamic debt and has no debt type, these categories are omitted accordingly. In addition, EVA for group 2 is omitted due to unavailable data. There are four categories for explanatory variables: Islamic debt characteristics, the frequency of Islamic debt issuance, the Islamic debt type issued, and firm performance. The year in which the Islamic debt is issued is used as the control variable.

Table 4
Descriptive statistics group 1

Variables	*Obs.*	*Mean*	*Std. Dev*	*Min*	*Max*
Dependent variables					
CAAR -1 to +1	80	-0.0137	0.1128	-0.8324	0.1443
CAAR -3 to +3	80	-0.0412	0.3705	-2.9170	0.1783
CAAR -5 to +5	80	-0.0386	0.3761	-2.9656	0.1951
CAAR -10 to +10	80	-0.0427	0.3988	-3.1576	0.1233
CAAR -15 to +15	80	0.0090	0.0668	-0.1377	0.5150
Islamic debt Characteristics					
Islamic Debt Offerings Size	80	0.0727	0.0813	0.0011	0.5561
Islamic Debt Maturity	80	7.9063	6.4727	1.0000	50.0000
Islamic Debt Maturity (Log)	80	0.8367	0.2190	0.3010	1.6990
Debt to Equity Ratio	80	0.2493	0.1626	0.0136	0.6378
Firm Size	80	6.0388	0.7254	4.6032	8.4924
Islamic debt Frequency					
First Issuance	80	0.0000	0.0000	0.0000	0.0000
Second Issuance	80	0.1316	0.3381	0.0000	1.0000
More Than Twice	80	0.4211	0.4938	0.0000	1.0000
Islamic Debt Type					
Debt Type	80	0.0000	0.0000	0.0000	0.0000
Asset Type	80	0.1053	0.3069	0.0000	1.0000
Equity Type	80	0.1316	0.3381	0.0000	1.0000
Firm Performance					
Tobin's Q	80	0.1679	0.2129	-1.6600	1.9938
ROA	80	0.0925	0.0004	0.0100	0.1526
ROE	80	0.0156	0.0352	0.0021	0.2292
EVA	80	0.3948	0.5871	-0.3946	3.0791
Control Variables					
Year 2000	80	0.0000	0.0000	0.0000	0.0000
Year 2001	80	0.0000	0.0000	0.0000	0.0000
Year 2002	80	0.0000	0.0000	0.0000	0.0000
Year 2003	80	0.0625	0.2440	0.0000	1.0000
Year 2004	80	0.1563	0.3660	0.0000	1.0000
Year 2005	80	0.3438	0.4787	0.0000	1.0000
Year 2006	80	0.1719	0.3803	0.0000	1.0000
Year 2007	80	0.1406	0.3504	0.0000	1.0000
Year 2008	80	0.0938	0.2938	0.0000	1.0000
Year 2009	80	0.0313	0.1754	0.0000	1.0000

CAAR -1 to +1: the mean value for the cumulative average abnormal return range from -1 to +1 is -0.0137or -1.37% with a range from -83.24% to 14.43%. CAAR -3 to +3: The mean value for the cumulative average abnormal return range from -3 to +3 is -0.0412 or 4.12% with a range from -29.17% to 17.83%. CAAR -5 to +5: The mean value for the cumulative average abnormal return range from -5 to +5 is -0.0386 or -3.86 with a range from -29.65% to 19.51%. CAAR -10 to +10: The mean value for the

cumulative average abnormal return range from -10 to +10 is -0.0427 or -4.27% with a range from -31.57% to 12.33%. CAAR -15 to +15: The mean value for the cumulative average abnormal return range from -15 to +15 is 0.0090 or 0.9% with a range from -13.77% to 51.50%.

Islamic debt offering size: The mean value for the size of the Islamic debt offering is 0.0727 with a range from 0.0011% to 0.5561%. Islamic debt maturity: The mean value for the Islamic debt length of maturity is 7.9 years with a range from 1 to 50 years. Debt to equity ratio: The mean value for the debt to equity ratio is 24.93% with a range from 1.36% to 63.78%. Firm size: The mean value for the firm size is 6.0388 with a range of 4.6032 to 8.4924, suggesting that most of the firms are big firms.

First issuance: First issuance is used as a baseline category for the frequency of Islamic debt issuance, and it takes the value of zero. Second issuance: The mean value for the second issuance of Islamic debt is 0.1316 with a range of 0.0000 to 1.0000, suggesting that only 13.16% of the firms issued Islamic debt for the second time. More than twice: The mean value for more than two issuances is 0.4211 with a range of 0.0000 to 1.0000, suggesting that most of the firms issued Islamic debt more than twice.

Debt type: Debt type is used as a baseline category for the Islamic debt type, and it takes the value of zero. Asset type: The mean value for the asset type of Islamic debt is 0.1053 with a range of 0.0000 to 1.0000. Equity type: The mean value for the equity type of Islamic debt is 0.1316 with a range of 0.0000 to 1.0000.

Tobin's Q: The mean value for Tobin's Q is 0.1679 with a range of -1.6600 to 1.9938, suggesting that most of the firms experienced low firm performance based on the market measure. ROA: The mean value for ROA is 0.0925 with a range of 0.0100 to 0.1526. Though the mean value of ROA is considerably small, this positive value indicates that the firms in the sample create shareholder value over the sampling period. This positive value also indicates an effective utilisation of firm assets in generating an operating surplus in the business. ROE: The mean value for ROE is 0.0156 with a range from 0.0021 to 0.2292, suggesting that most of the firms experienced low firm performance based on accounting measures. However, the positive value indicates that the firms in the sample create shareholder value and operating efficiency is positively translated into benefits to the owners. EVA: The mean value for EVA is 0.3948 with a range from -0.3946 to 3.0791, suggesting that most of the firms experienced low firm performance based on economic value measure. EVA tells corporate managers and investors if the value of a business has been created or destroyed. Since EVA is greater than zero, it indicates that the project will add value for shareholders.

Control variables: During the sampling period of 2000 to 2009, Islamic debt is only issued during these eight years (2001, 2003 to 2009). Islamic debt is mostly issued in 2005 which accounted for 34.38%. The mean value for 2001, 2003, 2004, 2005, 2006, 2007, 2008 and 2009 are 1.19%, 6.25%, 15.63%, 34.38%, 17.19%, 14.06%, 9.38% and 3.13% respectively from the total sample.

Table 5
Descriptive statistics group 2

Variables	*Obs.*	*Mean*	*Std. Dev*	*Min*	*Max*
Dependent variables					
CAAR -1 to +1	14	0.0062	0.0365	-0.0472	0.0674
CAAR -3 to +3	14	-0.0210	0.0449	-0.0958	0.0505
CAAR -5 to +5	14	0.0019	0.0684	-0.0700	0.1480
CAAR -10 to +10	14	-0.0145	0.0754	-0.1218	0.1200
Islamic debt Characteristics					
Islamic Debt Offerings Size	14	0.0106	0.0097	0.0017	0.0312
Islamic Debt Maturity	14	4.8571	0.5345	3.0000	5.0000
Islamic Debt Maturity (Log)	14	0.6831	0.0593	0.4771	0.6990
Debt to Equity Ratio	14	0.6122	0.1440	0.3627	0.8416
Firm Size	14	6.2201	0.5072	4.9997	7.6766
Islamic debt Frequency					
First Issuance	14	0.0000	0.0000	0.0000	0.0000
Second Issuance	14	0.0714	0.2578	0.0000	1.0000
More Than Twice	14	0.0000	0.0000	0.0000	0.0000
Islamic Debt Type					
Debt Type	14	0.0000	0.0000	0.0000	0.0000
Asset Type	14	0.7143	0.4522	0.0000	1.0000
Equity Type	14	0.2857	0.4522	0.0000	1.0000
Firm Performance					
Tobin's Q	14	11.4354	1.1089	10.4204	13.7915
ROA	14	0.0300	0.4244	-0.0070	0.1031
ROE	14	0.0320	0.0634	-0.0030	0.1489
Control Variables					
Year 2000	14	0.0000	0.0000	0.0000	0.0000
Year 2001	14	0.0000	0.0000	0.0000	0.0000
Year 2002	14	0.0000	0.0000	0.0000	0.0000
Year 2003	14	0.0714	0.2673	0.0000	1.0000
Year 2004	14	0.2857	0.4688	0.0000	1.0000
Year 2005	14	0.1429	0.3631	0.0000	1.0000
Year 2006	14	0.0000	0.0000	0.0000	1.0000
Year 2007	14	0.0714	0.2673	0.0000	1.0000
Year 2008	14	0.2857	0.4688	0.0000	1.0000
Year 2009	14	0.1429	0.3631	0.0000	1.0000

CAAR -1 to +1: the mean value for the cumulative average abnormal return range from -1 to +1 is 0.0062 or 0.6% with a range from -4.72% to 6.74%. CAAR -3 to +3: The mean value for the cumulative average abnormal return range from -3 to +3 is -0.0210 or -2.10% with a range from -9.58% to 5.05%. CAAR -5 to +5: The mean value for the cumulative average abnormal return range from -5 to +5 is 0.0019 or 0.19% with a range from -7%% to 14.80%. CAAR -10 to +10: The mean value for cumulative average abnormal return range from -10 to +10 is -0.0145 or -1.45% with a range from -12.18% to 12.00%.

Islamic debt offering size: The mean value for the Islamic debt offering size is 0.0106 with a range from 0.0017 to 0.0312. Islamic debt maturity: The mean value for

the Islamic debt length of maturity is 4.9 years with a range from 3 to 5 years. Debt to equity ratio: The mean value for the debt to equity ratio is 61.22% with a range from 36.27% to 84.16%. Firm size: The mean value for the firm size is 6.2201 with a range of 4.9997 to 7.6766, suggesting that most of the firms are big firms.

First issuance: First issuance is used as a baseline category for the frequency of Islamic debt issuance, and it takes the value of zero. Second issuance: The mean value for the second issuance of Islamic debt is 0.0714 with a range of 0.0000 to 1.0000, suggesting that only 7.14% of the firms issued Islamic debt for the second time.

Debt type: Debt type is used as a baseline category for the Islamic debt type, and it takes the value of zero. Asset type: The mean value for the asset type of Islamic debt is 0.7143 with a range of 0.0000 to 1.0000. Equity type: The mean value for the equity type of Islamic debt is 0.2857 with a range of 0.0000 to 1.0000.

Tobin's Q: The mean value for Tobin's Q is 1.5192 with a range of -0.2489 to 25.5134, suggesting that most of the firms experienced low firm performance based on the market measure. ROA: The mean value for ROA is 0.0300 with a range of -7.6563 to 0.1031, suggesting that most of the firms experienced low firm performance based on accounting measures. Though the mean value of ROA is considerably small, this positive value indicates that the firms in the sample create shareholder value over the sampling period. This positive value also indicates an effective utilisation of firm assets in generating an operating surplus in the business. ROE: The mean value for ROE is 0.0320 with a range of -0.0030 to 0.1489, suggesting that most of the firms experienced low firm performance based on accounting measures. However, the positive value indicates that the firms in the sample create shareholder value and operating efficiency is positively translated into benefits to the owners.

Control variables: During the sampling period 2000 to 2009, Islamic debt is only issued during these six years (2003 to 2005 and 2007 to 2009). Islamic debt is mostly issued in 2004 and 2008 which accounted for 28.57% for each year. The mean value for 2003, 2004, 2005, 2007, 2008 and 2009 are 7.14%, 28.57%, 14.29%, 7.14%, 28.57% and 14.29% respectively from the total sample.

4.2. Multivariate Regression Analysis for Event Study Results

Table 6, Table 7, and Table 8 show the regression results for group 1. Table 9, Table 10 and Table 11 show the regression results for group 2. The dependent variable is CAAR -1 to +1, CAAR -3 to +3, CAAR -5 to +5, CAAR -10 to +10 and CAAR -15 to +15. Apart from CAAR -15 to +15, all the dependent variables used for group 1 are also employed for group 2. For each dependent variable, there are two regression results provided; firstly, regression without control variables and secondly, regression with control variables.

Table 6 presents the results for CAAR -1 to +1, CAAR -3 to +3, CAAR -5 to +5, CAAR -10 to +10 and CAAR -15 to +15. There are no differences for the coefficient for

Islamic debt offerings size and Islamic debt maturity between all the different CAAR spans, which are a negative but not significant for Reg. 1 and Reg. 2. This negative finding is similar to the study by Ashhari *et al.* (2009) which finds that Islamic debt offering size and Islamic debt maturity are a negative, however, the significance result obtained is different as they find that Islamic debt offering size has a significant impact at 5% level of significance. In addition, Ibrahim and Minai (2009) also find that the Islamic debt offering size has a negative and significant impact on returns. This may suggest that the greater the debt amount, the lower the cumulative abnormal return, and the longer the maturity, the lower the cumulative abnormal return. These findings can be better explained by the negative slope demand theory and asymmetric information theory. First, the negative slope demand theory suggests that the greater the quantity offered, the lower the price. Second, the asymmetric information theory (Myers & Majluf, 1984) implies that the announcement of debt issues should produce either no effect or a very small negative effect on stock price. Furthermore, a long maturity period is usually accompanied by higher interest, which is attractive to investors. Should the maturity and abnormal return go in the opposite direction then this may indicate that the market buys this security not for profit but mostly to invest in a secure investment.

Apart from the negative slope demand theory and asymmetric information theory, these negative results might also be caused by the risks posed by the Islamic debt instrument. Although it is claimed that Islamic debt is safer than conventional debt instruments, this does not mean that the former is entirely free of risks. Sovereign and corporate sukuk have similar financial risks as conventional debt instruments (Wilson, 2008). Participation is the way to encounter default risk. In line with that, Muslim scholars have generated much research and discussion to escalate product derivation in Islamic debt, in order to create more opportunities for both Muslim and non-Muslim investors to diversify their portfolio risks. There are some risks associated with the Islamic debt instrument including credit risks, operational risks, liquidity risks, exchange rate risks, economic and political risks.

Credit risks arising from adverse changes in the credit quality and recoverability of loans, advances and amounts due from counterparties are inherent in a wide range of Islamic debt issuers' businesses. Credit risks could arise from a deterioration in the credit quality of specific counterparties of the issuers, from a general deterioration in local or global economic conditions or from systemic risks with the financial systems, all of which could affect the recoverability and value of issuers' assets and require an increase in issuers' provisions for the impairment of its assets and other credit exposures.

Operational risks and losses can result from a number of things including fraud, error by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, the failure of internal systems, equipment and external systems and

the occurrence of natural disasters. For example, 1) Salam sukuk contracts are exposed to the risk that commodities will not be supplied on time or to the agreed quantity; 2) Istisna'a sukuk contracts involve performance risk in which the client of the bank may default on the conditions of the contract and the sub-contractor may fail to render the necessary services. Although the issuers have implemented risk controls, and loss mitigation strategies and substantial resources are devoted to developing efficient procedures, it is not possible to entirely eliminate any of the operational risks.

Liquidity risks could arise from the inability of the issuers to anticipate and provide for unforeseen decreases or changes in funding sources which could have adverse consequences on the ability of the issuers to meet their obligations when they are due. Asset redemption risk arises from the fact that the originator has to buy-back the underlying assets from the certificate holder, and the principal amount paid may not be equal to the Islamic debt issue amount, and as a result, there is a risk that the assets may not be fully redeemed. Therefore, the greater the amount of the debt, the higher the risk the investors have to bear.

Exchange rate risks could arise if investors issued in foreign currency, and thus the issuers have to maintain their accounts and report their results in their home currency. The home currency has to be pegged at a fixed exchange rate to the U.S. dollar. The issuers are exposed to the potential impact of any alteration to or abolition of this foreign exchange peg. Therefore, the longer the maturity, the higher the chance of being exposed to interest rate risk; as the interest rate rises, the present value of this instrument lowers as does the maturity. At the end, these factors affect the investors' perspective, and they are likely to become risk adverse investors.

Developing markets are subject to greater risks than developed markets, including in some cases significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and they must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment is only suitable for sophisticated investors who fully appreciate the significance of the risk involved. In the end, all those factors affect the investors' perspective, and they are likely to become risk adverse investors.

Furthermore, there are no differences for the coefficient for debt to equity ratio among all CAAR spans which are a negative and significant for Reg.1 and Reg.2. This suggests that the higher the debt to equity ratio, the lower the abnormal return. This finding supports the notion that the debt level of a firm is taken into account by investors in order to determine stock prices (Giner & Reverte, 2001). Moreover, this finding is in contrast with Asharri et al. (2009) who find that debt to equity ratio is a positive but not significant. This negative and significant result may indicate that the market believes the notion that at a certain level, the addition of debt may hamper the firm's performance as agency costs are higher with regard to profit-loss sharing arrangements.

There are no differences for the coefficient for firm size among all CAAR spans, which are a positive and significant for Reg.1 and Reg.2, suggesting that the bigger

the firm size, the higher the abnormal return. This finding is similar with Ashhari *et al.* (2009) who find that firm size has a positive impact on return, however their finding is not significant. This may indicate that the markets have a higher level of confidence with these kinds of issuers as they are believed to have a stable cash flow and profits. Hence, the risk of a default is also believed to be minor. For the control variables, none of the years provide significant results.

In conclusion, the results provided in Table 6 for the CAAR -3 to+3, CAAR -5 to+5, CAAR -10 to +10 and CAAR -15 to +15 reveal no differences from the result for the CAAR -1 to +1.

Table 7 presents the results for CAAR -1 to +1, CAAR -3 to +3, CAAR -5 to +5, CAAR -10 to +10 and CAAR -15 to +15. For Islamic debt frequency, only the coefficient for first issuance is a positive and significant at 5% significance level. This positive reaction for the first issuance of Islamic debt indicates that the markets have confidence over the instrument and the issuers. Apart from that, the markets observe the support from Malaysian regulators and government in developing Islamic finance industry, including the Islamic debt market, hence this government's supports provide bright prospect of this Islamic debt market. The positive reaction also might be due to the fact that Islamic debt is considered as a cheaper financing cost. This cheaper cost of Islamic debt issuance is a result of higher liquidity and lower transaction cost of this instrument. Furthermore, investing in Islamic debt as one portfolio investment significantly reduces the value at risk (VAR) portfolio when compared to investing in all conventional instruments (Cakir & Raei, 2007). Therefore, market might also think that investment in Islamic debt reduces their risk as Islamic debt is claimed as a secure investment.

Furthermore, the non-significant impact for the second issuance and so on, implies that the market learnt from the previous experience. First, this may relate to the behavioural finance theory which once investors understand that their decisions are bad ones; they are likely to make much better decisions in future or in other word it can be said as a learning process. However, according to behavioural finance theory investors are sometimes irrational in accessing and making decisions. The theory of behavioural finance was established by Kahneman and Tversky (1979) where they found the prospect theory. This theory implies that human apparently under uncertainty are not consistently risk averse but rather they are risk-averse in gains but risk-takers in losses.

Second, the success or failure from the previous issuance leads the investors' judgement. Third, there are some risks pose by the issuers, one of these risks is risks arising from changes in credit quality and the recoverability of amounts due from borrowers and counterparties are inherent in banking businesses (Wilson, 2008). Adverse changes in global economic conditions, or arising from systemic risks in the financial systems, could affect the recovery and value of issuers' assets and require an increase in issuers' provisions. Issuers use different hedging strategies to minimise

Table 6
Regression result for group 1

Variables	*CAAR -1to+1*		*CAAR -3to+3*		*CAAR -5to+5*		*CAAR -10to+10*		*CAAR -15to+15*	
	Reg.1	*Reg.2*	*Reg.1*	*Reg.2*	*Reg.1*	*Reg.2*	*Reg.1*	*Reg.2*	*Reg.1*	*Reg.2*
Constant	-0.2250*	-0.1927	-0.7435*	-0.6207	-0.6351	-0.6990	-0.7655	-0.8050	0.1147	0.1068
	(0.1330)	(0.1599)	(0.4385)	(0.5324)	(0.4510)	(0.5530)	(0.4747)	(0.5771)	(0.0794)	(0.0961)
Islamic Debt Offerings Size	-0.0703	-0.1300	-0.2627	-0.4837	-0.2156	-0.4293	-0.4265	-0.6765	0.0378	0.0912
	(0.1870)	(0.1870)	(0.6170)	(0.6228)	(0.6345)	(0.6467)	(0.6679)	(0.6750)	(0.1117)	(0.1124)
Islamic Debt Maturity	-0.0036	-0.0113	-0.0092	-0.0454	-0.0198	-0.0255	-0.0353	-0.0920	-0.0071	-0.0152
	(0.0660)	(0.0656)	(0.2179)	(0.2185)	(0.2241)	(0.2270)	(0.2359)	(0.2369)	(0.0394)	(0.0394)
Debt to Equity Ratio	-0.2194***	-0.2264***	-0.6759**	-0.6849**	-0.6084**	-0.6386**	-0.6297**	-0.6651**	-0.1293**	-0.1334***
	(0.0933)	(0.0913)	(0.3077)	(0.3040)	(0.3165)	(0.3157)	(0.3331)	(0.3295)	(0.0557)	(0.0549)
Firm Size	0.0450**	0.0426*	0.1448**	0.1290	0.1280*	0.1210	0.1446*	0.1326	0.0221	0.0183
	(0.0229)	(0.0238)	(0.0753)	(0.0793)	(0.0775)	(0.0823)	(0.0816)	(0.0860)	(0.0136)	(0.0143)
Year 2003		-0.0083		0.0092		0.1430		0.1651		-0.0239
		(0.0882)		(0.2338)		(0.3052)		(0.3185)		(0.0530)
Year 2004		-0.0063		0.0021		0.1490		0.1512		-0.0169
		(0.0786)		(0.2616)		(0.2717)		(0.2836)		(0.0472)
Year 2005		0.0010		0.0449		0.1684		0.1772		-0.0309
		(0.0759)		(0.2526)		(0.2623)		(0.2738)		(0.0456)
Year 2006		-0.0898		-0.2500		-0.0916		-0.1250		0.0258
		(0.0782)		(0.2606)		(0.2707)		(0.2824)		(0.0470)
Year 2007		-0.0118		-0.0135		0.1188		0.1350		-0.0170
		(0.0803)		(0.2674)		(0.2778)		(0.2899)		(0.0482)
Year 2008		-0.0650		-0.1122		0.0089		0.0004		-0.0043
		(0.0823)		(0.2743)		(0.2849)		(0.2973)		(0.0495)
Obs.	80	80	80	80	80	80	80	80	80	80
Wald chi2	7.87	16.51	7.29	14.29	5.47	10.84	6.50	13.25	6.65	14.00
Prob>Chi2	0.0965	0.0860	0.1212	0.1600	0.2428	0.3703	0.1647	0.2102	0.1556	0.1728
R-squared	0.1095	0.2050	0.1023	0.1826	0.0787	0.1448	0.0922	0.1715	0.0941	0.1795
Root MSE	0.1056	0.0998	0.3482	0.3323	0.3582	0.3451	0.3777	0.3601	0.0630	0.0600

*** Sig. at 1% significance level, **Sig. at 5% significance level, *Sig. at 10% significance level. Standard deviation is in parentheses

risk, including securities, collaterals and insurance that reduce the credit risk level to be within the issuers' strategy and risk appetite. However, there can be no guarantee that such measures will eliminate or reduce such risks. Fourth, though Malaysia has enjoyed significant economic growth and relative political stability, there can be no assurance that such growth or stability will continue.

For Islamic debt type, the coefficient for debt type, asset type and equity type is a positive, however only debt type is significant at 5% significance level. This indicates that when the issuers issued the debt type of Islamic debt, the markets react positively toward this type of debt. Though, the two other types are not significant, but it is also positive. The significant result for debt type might be due to the fact that there is no transfer of ownership; hence this type of Islamic debt is easier than the other two types. Due to the different law and regulations in every country, therefore, there are doubts whether, under Malaysian law, a co-ownership interest in certain assets/ projects can be effectively transferred. Accordingly, no assurance is given that any co-ownership interest in the relevant co-ownership assets has been or will be transferred to the Issuer. Thus, investors in emerging markets should be aware that these markets are subject to greater risks than more developed markets, including, in some cases, significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

Furthermore, for year effect, only year 2008 has a negative and significant effect on the abnormal return. The negative abnormal return may be caused by the global financial crisis effect. The results for CAAR -3 to +3 show no different than the result for CAAR -3 to +3, but only the year effect has a different. In the CAAR -3 to +3, apart from 2006, all year shows a negative and significant effect on the abnormal return. Furthermore, apart from CAAR -1 to +1 and CAAR -3 to +3, the rest of the CAAR provides insignificant results. This may indicate that the longer the span of the abnormal return, the more insignificant it becomes. This support the notion of the shorter span of the event window, the better the quality of the results to capture the effect of the event.

Table 8 presents the results for CAAR -1 to +1, CAAR -3 to +3, CAAR -5 to +5, CAAR -10 to +10 and CAAR -15 to +15. All performance measures show a positive effect on return, however, only ROE and EVA are significant. The non-significant result for Tobin's Q is similar to Ibrahim and Minai (2009) which find a positive but not significant impact on return. The positive finding for firm performance may indicate that the market has more confidence in buying this security as they expect these firms will have more prospects in the future. Furthermore, all the issuers have to submit and publish their prospectus which includes not only their financial statement, but also their objectives and strategies, their competitive advantages and their risk

Table 7
Regression result for group 1

Variables	*CAAR -1to+1*		*CAAR -3to+3*		*CAAR -5to+5*		*CAAR -10to+10*		*CAAR -15to+15*	
	Reg.1	*Reg.2*	*Reg.1*	*Reg.2*	*Reg.1*	*Reg.2*	*Reg.1*	*Reg.2*	*Reg.1*	*Reg.2*
Constant	0.0041*	0.0378**	0.0155*	0.1083***	0.0226	0.0563	0.0222	0.0314	0.0045	0.0010
	(0.0090)	(0.0195)	(0.0206)	(0.0427)	(0.0206)	(0.0614)	(0.0214)	(0.0533)	(0.0032)	(0.0074)
Islamic debt Frequency										
First Issuance	(Omitted)	(Omitted)	(Omitted)	(Omitted)	(Omitted)	(Omitted)	(Omitted)	(Omitted)	(Omitted)	(Omitted)
	-	-	-	-	-	-	-	-	-	-
Second Issuance	-0.0062	-0.0037	-0.0219	-0.0111	-0.0243	-0.0082	-0.0359	-0.0030	-0.0022	-0.0040
	(0.0107)	(0.0132)	(0.0252)	(0.0326)	(0.0288)	(0.0343)	(0.0273)	(0.0350)	(0.0025)	(0.0052)
More Than Twice	-0.0332	-0.0242	-0.0864	-0.0532	-0.0719	-0.0420	-0.0900	-0.0551	-0.0129	-0.0063
	(0.0287)	(0.0207)	(0.0941)	(0.0657)	(0.0955)	(0.0668)	(0.1012)	(0.0708)	(0.0170)	(0.0125)
Islamic Debt Type										
Debt Type	(Omitted)	(Omitted)	(Omitted)	(Omitted)	(Omitted)	(Omitted)	(Omitted)	(Omitted)	(Omitted)	(Omitted)
	-	-	-	-	-	-	-	-	-	-
Asset Type	0.0455*	0.0350	0.0728	0.0405	0.0890	0.0833	0.0976	0.0828	0.0042	0.0019
	(0.0275)	(0.0282)	(0.0752)	(0.0693)	(0.0751)	(0.0648)	(0.0788)	(0.0704)	(0.0133)	(0.0123)
Equity Type	0.0017	0.0051	0.0297	0.0021	0.0350	0.0346	0.0437	0.0362	0.0058	0.0016
	(0.0185)	(0.0141)	(0.0525)	(0.0212)	(0.0538)	(0.0219)	(0.0594)	(0.0338)	(0.0088)	(0.0047)
Year 2003		-0.0327		-0.0947*		0.0720		0.0763		-0.0004
		(0.0247)		(0.0508)		(0.0670)		(0.0631)		(0.0072)
Year 2004		-0.0280		-0.0901***		0.0839		0.0607		-0.0016
		(0.0199)		(0.0382)		(0.0600)		(0.0502)		(0.0060)
Year 2005		-0.0254		-0.0711*		0.0808		0.0579		-0.0081
		(0.0224)		(0.0418)		(0.0615)		(0.0531)		(0.0091)
Year 2006		-0.1094		-0.346		-0.1620		-0.2168		0.0449
		(0.0670)		(0.2253)		(0.2341)		(0.2445)		(0.0394)
Year 2007		-0.0309		-0.0890**		0.0513		0.0438		-0.0001
		(0.0202)		(0.0425)		(0.0639)		(0.0559)		(0.0063)
Year 2008		-0.0624***		-0.1227***		-0.0029		-0.0232		-0.0009
		(0.0234)		(0.0398)		(0.0613)		(0.0569)		(0.0071)
Obs.	80	80	80	80	80	80	80	80	80	80
Wald chi2	4.05	17.32	1.81	18.93	2.80	14.43	3.47	8.70	3.14	3.84
Prob>Chi2	0.3998	0.0676	0.7702	0.0411	0.5912	0.1543	0.4824	0.5603	0.5340	0.9541
R-squared	0.0371	0.1145	0.0192	0.0906	0.0163	0.0702	0.0215	0.0846	0.0118	0.0850
Root MSE	0.1098	0.1053	0.364	0.3505	0.3701	0.3599	0.3914	0.3786	0.0659	0.0633

*** Sig. at 1% significance level, **Sig. at 5% significance level, *Sig. at 10% significance level. Standard deviation is in parentheses

Table 8
Regression result for group 1

Variables	*CAAR -1to+1*		*CAAR -3to+3*		*CAAR -5to+5*		*CAAR -10to+10*		*CAAR -15to+15*	
	Reg.1	*Reg.2*	*Reg.1*	*Reg.2*	*Reg.1*	*Reg.2*	*Reg.1*	*Reg.2*	*Reg.1*	*Reg.2*
Constant	0.0365	0.3930	2.4442	2.6522	1.7625	2.2882	2.7586	3.3682	0.2989	0.3731
	(0.0750)	(0.7809)	(2.3948)	(2.4896)	(2.4090)	(2.5150)	(2.5273)	(2.6288	(0.4351)	(0.4511)
Tobin's Q	0.0365	0.0350	0.2383	0.2560	0.1701	0.2323	0.2679	0.3400	0.0292	0.0378
	(0.0750)	(0.0789)	(0.2360)	(0.2516)	(0.2373)	(0.2541)	(0.2490)	(0.2656)	(0.0429)	(0.0456)
Economic Value Added	0.0578**	0.0381	0.2616***	0.2192***	0.2867***	0.2634***	0.3132***	0.2793***	0.0458***	0.0381***
	(0.0261)	(0.0280)	(0.0822)	(0.0895)	(0.0827)	(0.0904)	(0.0867)	(0.0944)	(0.0150)	(0.0162)
Return on Asset	0.3835	0.1958	0.2186*	0.1834	0.2220**	0.2036	0.2308*	0.2022	0.3605*	0.3004
	(0.0372)	(0.3853)	(0.1170)	(0.1228)	(0.1176)	(0.1241)	(0.1234)	(0.1297)	(0.2125)	(0.2226)
Return on Equity	0.1854	0.2997	0.6615	0.9958	0.7558	1.1861	0.6698	1.1234	0.1210	0.1733
	(0.4435)	(0.4706)	(0.1394)	(0.1500)	(0.1402)	(1.5155)	(1.4716)	(1.5841)	(0.2533)	(0.2719)
Year 2003		-0.0326		-0.0188		0.1174		0.1607		-0.0125
		(0.0940)		(0.2995)		(0.3026)		(0.3162)		(0.0542)
Year 2004		-0.0238		-0.0038		0.1490		0.1642		-0.0167
		(0.0839)		(0.2672)		(0.2700)		(0.2822)		(0.0484)
Year 2005		-0.0288		-0.0016		0.1262		0.1467		-0.0202
		(0.0818)		(0.2607)		(0.2634)		(0.2753)		(0.0472)
Year 2006		-0.0965		-0.1670		0.0207		0.0060		-0.0131
		(0.0856)		(0.2729)		(0.2757)		(0.2881)		(0.0494)
Year 2007		-0.0338		-0.0664		0.0678		0.0891		-0.0014
		(0.0866)		(0.2761)		(0.2790)		(0.2915)		(0.0500)
Year 2008		-0.0725		-0.1190		-0.0081		-0.0031		0.0011
		(0.0882)		(0.2814)		(0.2843)		(0.2971)		(0.0510)
Obs.	80	80	80	80	80	80	80	80	80	80
Wald chi2	5.54	9.74	11.89	14.25	13.31	15.05	14.97	17.35	10.64	13.37
Prob>Chi2	0.3535	0.5543	0.0363	0.2192	0.0206	0.1802	0.0105	0.0980	0.0589	0.2699
R-squared	0.0797	0.1320	0.1567	0.1822	0.1722	0.1904	0.1895	0.2132	0.1426	0.1728
Root MSE	0.1073	0.1042	0.3375	0.3324	0.3395	0.3358	0.3562	0.3509	0.0613	0.0602

*** Sig. at 1% significance level, **Sig. at 5% significance level, *Sig. at 10% significance level. Standard deviation is in parentheses

managements. This includes a strong brand, experienced management, high growth and a high level of profit rate. When the issuers have all those clearly stated on their prospectus, the investors might have confidence in investing their money to this firm. Furthermore, CAAR -3 to +3, CAAR -5 to +5, CAAR -10 to +10 and CAAR -15 to +15 yield similar results as those for CAAR -1 to +1. Furthermore, all the control variables for all CAAR variations show no significant year effect.

Table 9, Table 10 and Table 11 present the regression results for group 2. As can be seen in Table 9, the coefficient for Islamic debt offering is a negative, suggesting that the greater the amount of the debt offered, the lower the abnormal return, however, the result is insignificant. Many emerging economies are still over-reliant on their respective banking sectors as financiers. In such instances, the regulators would not be remiss in extending their support by introducing fiscal incentives, such as exemption of tax and/or stamp duty, to stimulate the Islamic debt market. This would undoubtedly provide a boost in the arm for a fledgling Islamic debt market. Unlike Malaysia where Islamic debt is exempted from stamp duty, taxes and other costs associated with listing, Indonesia is not yet implementing such measures to boost this market. Therefore, the greater the amount of debt, the higher the cost firms have to bear, and at the end these costs have to be paid by the investors.

The coefficient for Islamic debt maturity is a negative and significant, suggesting that the longer the maturity, the lower the abnormal return. Generally, the longer the period of debt offered, the higher the rate offered, thus it may attract investors to buy this security. However as far as Islamic debt securities are concerned, it seems as if investor prefer to have shorter periods of maturity. The reason is that investors exercise caution when investing their money in a new instrument. Furthermore, since the maturity is short, the rate offered is lower than the long-term debt rate, but nevertheless investors expect to have a fixed stream of income. This negative result might also be caused by the unstable inflation rate and interest rates. The inflation rate in 2004, 2005, 2007 and 2008 is 6.40%, 17.11%, 6.59% and 11.06% respectively; the lending interest rate charged by the bank in 2004, 2005, 2007 and 2008 is 14.12%, 14.05%, 13.86% and 13.60% respectively; meanwhile the Indonesian Bank rate in 2004, 2005, 2007 and 2008 is 12.75%, 9.75% , 8% and 9.25% (Indonesian Bank Website, 2012).

The coefficient for debt to equity ratio is a positive and significant, suggesting that the higher the debt to equity ratio, the higher the abnormal return. The coefficient for firm size is a negative and insignificant, suggesting that firm size has no impact on the CAAR.

For year effect, year 2004 yields a negative and significant for all spans of CAAR, suggesting that this particular brought about a negative impact on investors' confidence towards the markets. The business survey index in 2004 was a positive index indicating economic expansion during that year (Indonesian Bank, 2004) and this may boost the confidence of investors. The Business Confidence Index is an indicator designed to measure the degree of optimism on the state of the economy that business owners are

expressing through their activities of investing and spending. Decreasing business confidence often implies a slowing economic growth because business owners are likely to decrease their investments. The idea is that the more confident business owners and managers feel about the economy, their companies, their jobs and incomes, the more likely they are to make investments and purchases. When business confidence is measured on a scale between 0 and 100, an index level below 50 indicates that the number of business owners who are expecting their company's performance to be weaker in the next year outnumber those who are expecting stronger performances.

However, economic activity is not the sole factor in affecting the confidence of investors towards the market. The political climate can also be a factor and in 2004, a general election was held in Indonesia. The prospect of a new political party taking over and implementing new policies is inherent with an impending election and this may pose a concern to investors before, during and after the election that conditions may turn unstable.

The coefficient for 2005 and 2007 is a positive but not significant, suggesting that there is no significant impact on these years on investors' confidence. Although, it is not significant, the positive result is also supported by the positive index of business activities which indicates there was an expansion of economic activities during these two years. The expansion of economic activities is caused by the increase in domestic demands and stock availability. Moreover, this expansion is influenced by the pending orders in the manufacturing industry section, trades, the hotel and restaurant sector, new contracts, starting operations of projects, particularly big projects in the construction sector, the rupiah currency depreciation, an increase in marketing activities, and increases on operational and interest income in the finance, leasing and business services sectors. Furthermore, increasing business activities was also reflected by the increase in the demand/order volumes, selling prices/tariffs/interests, business situations and company financial conditions. Within the economic sector, all industries except mining and quarrying indicated expansion. The biggest contribution was from the manufacturing industry sector, followed by the finance sector. As for sub sectors, all sub sectors except the restaurant sub sector experienced expansion, with the biggest increase recorded in the trade sub sector. In the agriculture sector, most of the sub sectors except the farm food crops sub sector experienced expansion. Within the manufacturing industry sector, all of the sub sectors experienced expansion or an increase in business activities (Bank Indonesia, 2004 and 2007).

The coefficient for year 2008 yields a negative and significant effect on the abnormal return. This negative effect is also supported by the negative index of business activities (Indonesian Bank, 2008). This suggests that there was a contraction of the business activities and economy for 2008. In addition, this negative result might be caused by the slump in domestic and international demand as the effect of the global economic crisis caused the contraction of business activities in 2008. Other additional factors that caused a contraction in business activities were: seasonal factors, competition

between similar products, and an unfavourable market situation. Furthermore, manufacturing industry sector, followed by mining & quarrying sector, agriculture, livestock, forestry & fishery sector, and construction sector contributed the greatest to the economic's contraction. In the meantime, five other economic sectors continued to expand although the level of growth was slower than in the previous period. The biggest contribution was recorded by the financial, ownership & business services sector followed by the trade, hotel and restaurant sector, and finally, the transportation and communication sector (Indonesian Bank, 2008).

A further factor that may have played a role in the negative effect in year 2008 was the general election held in 2009. Generally, the period building up towards an election year affects the economic and capital market as the prospect of unstable political conditions or a change in government might affect the investors' confidence over their investments. Debt markets need a stable macroeconomic and political environment to survive and grow. Without either of these two rudimentary features, investors, both local and foreign, would not be inclined to put their money into any capital markets at all, not just the debt market specifically. To engender an appropriate

Table 9
Regression result for group 2

Variables	*CAAR -1to+1*		*CAAR -3to+3*		*CAAR -5to+5*		*CAAR -10to+10*	
	Reg.1	*Reg.2*	*Reg.1*	*Reg.2*	*Reg.1*	*Reg.2*	*Reg.1*	*Reg.2*
Constant	0.1059	0.3553	0.3078	0.1947	0.4338	0.0282	0.3800	0.8683
	(0.3235)	(0.3054)	(0.3540)	(0.3674	(0.7892)	(0.7461)	(0.4364)	(0.5540)
Islamic Debt Offerings Size	-1.1492	-2.5174	-1.7567	-0.8776	-1.1714	-0.9622	-0.1638	-1.4631
	(2.0719)	(1.5751)	(2.3442)	(1.8945)	(3.0729)	(3.8470)	(3.0147)	(2.8565)
Islamic Debt Maturity	-0.2050**	-0.1231	-0.1478	-0.0370	-0.1255	-0.1660	-0.7332***	-0.3255
	(0.1086)	(0.1440)	(0.1558)	(0.1732)	(0.2961)	(0.3518)	(0.2113)	(0.2612)
Debt to Equity Ratio	0.1183*	0.0687	0.1655**	0.0850	0.2436***	0.1129	0.2215**	0.0434
	(0.0630)	(0.0587)	(0.0806)	(0.0706)	(0.0990)	(0.1433)	(0.1099)	(0.1064)
Firm Size	-0.0031	-0.0419	-0.0429	-0.0323	-0.0576	-0.0011	-0.0044	-0.0932
	(0.0420)	(0.0382)	(0.0452)	(0.0460)	(0.0975)	(0.0934)	(0.0570)	(0.0693)
Year 2004		-0.0402**		-0.0730***		-0.0009*		0.1531***
		(0.0208)		(0.0250)		(0.0509)		(0.0378)
Year 2005		0.0209		0.0198		0.0372		0.0782*
		(0.0240)		(0.0289)		(0.0586)		(0.0435)
Year 2007		0.0043		0.0126		0.1180*		0.0205
		(0.0290)		(0.0350)		(0.0710)		(0.0527)
Year 2008		-0.0352*		-0.0421*		-0.0267*		-0.1247***
		(0.0199)		(0.0240)		(0.0488)		(0.0362)
Obs.	14	14	14	14	14	14	14	14
Wald chi2	12.44	24.40	5.40	26.26	8.76	8.69	49.65	35.92
Prob>Chi2	0.0144	0.0020	0.2485	0.009	0.0674	0.3693	0.0000	0.0000
R-squared	0.3015	0.6354	0.2333	0.6523	0.2503	0.3829	0.2644	0.7196
Root MSE	0.0293	0.0212	0.0379	0.0255	0.0571	0.0518	0.0623	0.0385

*** Sig. at 1% significance level, **Sig. at 5% significance level, *Sig. at 10% significance level. Standard deviation is in parentheses

base of issuers and investors, economic expansion must be robust enough while inflation and interest rates cannot be too lofty or volatile. In addition, a country must also have high savings and investment rates, as well as a high per-capita income, to support its developing debt market.

Table 10 provides the regression result for the second equation. The coefficient for the first issuance of Islamic debt is a positive and significant, suggesting that the market reacts favourably towards this security. This positive market reaction might be caused by the fact that most investors want to diversify their portfolio to minimise risk. However, the second issuance of Islamic debt reveals a negative and significant coefficient and there are reasons for this. Firstly, the market has already experienced Islamic debt before and this security becomes less attractive for the second time. Moreover, the learning process that occurred during the first issuance enables the market to realise the risks and returns they can gain when they invest in this security. Secondly, there tends to be less transparency and implementation of corporate governance conducts. Domestic debt markets also fortify the financial industry, by promoting a climate of greater transparency and corporate governance. Just like in equities markets, entities which issue debts to the public are required to make disclosures regarding their operations, financial and management strategies. At the same time, such practices also enhance investor education, thereby facilitating more informed investment decisions in the market. Therefore, transparency and good corporate governance play a significant role in affecting investors' judgement. Although the financial and non-financial activities of firms, including their corporate governance conduct, are supposed to be disclosed and thus subject to regulation, a few firms in Indonesia have not fully complied. Some of these cases include the Duta Bank case, the Bapindo case, the Kimia Farma case, the Lippo Bank case, Century Bank, Bakrie Group and other cases. Most of these firms are well-known and well established; hence the impact of their fraud is significant in causing the market to lose confidence. In effect, such cases of financial fraud also raise serious questions about the efficacy of corporate governance function, which leads to market distrust. Thirdly, the legal environment remains uncertain and largely untested by actual cases, and there are concerns about the legal transfer of title and foreclosure in case of default (Standard & Poor's RatingsDirect, 2008).Moreover, the legal uncertainties, essential policy and regulatory divergences are critical in affecting the market favour and the market growth (Andreas, Peter, Paul & Amadou, 2008). Fourthly, it is complicated to structure the required underlying assets. Fifth, tax uncertainty is another factor as there are no explicit regulations that ensure that Islamic debt receives similar tax treatment to conventional debt.

The coefficient for asset type is a positive and significant, suggesting that the market considers this security a secure instrument on the basis of its claimant priority over conventional debt and stock. However, when this Islamic debt instrument assumes the form of equity type, the coefficient is a negative and significant, suggesting that the market reacts less favourably towards this type of Islamic debt. For the year effect, only 2004 and 2008 yield a negative and significant effect on abnormal returns.

Table 10
Regression result for group 2

Variables	*CAAR -1to+1*		*CAAR -3to+3*		*CAAR -5to+5*		*CAAR -10to+10*	
	Reg.1	*Reg.2*	*Reg.1*	*Reg.2*	*Reg.1*	*Reg.2*	*Reg.1*	*Reg.2*
Constant	0.0097	0.0304***	0.0170	0.0021	0.0030	0.0433	0.0227	0.0923***
	(0.0150)	(0.0093)	(0.0179)	(0.0169)	(0.0377)	(0.0282)	(0.0431)	(0.0256)
Islamic debt Frequency								
First Issuance	(Omitted)	(Omitted)	(Omitted)	(Omitted)	(Omitted)	(Omitted)	(Omitted)	(Omitted)
	-	-	-	-	-	-	-	-
Second Issuance	-0.0240*	-0.0011	-0.0340**	-0.0270	-0.0793***	-0.1153***	0.0433**	0.0983***
	(0.0127)	(0.0225)	(0.0157)	(0.0219)	(0.0200)	(0.0463)	(0.0207)	(0.0226)
Islamic Debt Type								
Asset Type	(Omitted)	(Omitted)	(Omitted)	(Omitted)	(Omitted)	(Omitted)	(Omitted)	(Omitted)
	-	-	-	-	-	-	-	-
Equity Type	-0.0025	-0.0012	-0.0022	-0.0019	-0.0064	-0.0515*	-0.0564	-0.0394
	(0.0196)	(0.0132)	(0.0238)	(0.0199)	(0.0427)	(0.0300)	(0.0479)	(0.0268)
Year 2004		-0.0446***		-0.0612***		-0.0238		-0.1284***
		(0.0144)		(0.0198)		(0.0264)		(0.0328)
Year 2005		0.0040		0.0307*		0.0041		0.0559**
		(0.0230)		(0.0173)		(0.0272)		(0.0260)
Year 2007		0.0090		0.0109		0.1720***		0.0085
		(0.0093)		(0.0169)		(0.0282)		(0.0257)
Year 2008		-0.0473***		-0.0266*		-0.0372**		-0.1418***
		(0.0199)		(0.0231)		(0.0448)		(0.0322)
Obs.	14	14	14	14	14	14	14	14
Wald chi2	6.68	29.27	8.81	24.01	19.45	162.06	4.49	380.68
Prob>Chi2	0.0355	0.0001	0.0122	0.0005	0.0001	0.0000	0.1059	0.0000
R-squared	0.0338	0.4783	0.0431	0.5854	0.0932	0.5433	0.1280	0.7431
Root MSE	0.0345	0.0254	0.0423	0.0279	0.0628	0.0445	0.0679	0.0368

*** Sig. at 1% significance level, **Sig. at 5% significance level, *Sig. at 10% significance level. Standard deviation is in parentheses

Table 11 provides the regression result for the third equation. Only CAAR -3 to +3 and CAAR -5 to +5 yield a positive and significant coefficient. The significant result suggests that investors highly regard firms that have previously issued Islamic debt. Moreover, the positive index of business activities indicates that there was business expansion during the year. As mentioned earlier, this business expansion was caused by an increase in domestic demand, the earnings increase of credit interest (in finance, leasing and business services sectors), and conducive weather patterns that brought about a good agricultural harvest. Indications of increasing business activities were also reflected in the better performance of macro indicators such as labour utilisation, company financial conditions, production capacities, access to credit, and selling prices. Furthermore, in the economic sector, almost every sector except the mining and quarrying sector experienced expansion. The biggest contribution to this expansion came from the trade, hotel and restaurant sector followed by the services sector, the finance sector, the leasing and business services sector, and finally, the transportation and communication sector (Business Survey Indonesian Bank, 2012).

As far as the year effect is concerned, only 2004 has a significant impact, however, the effect is a negative. As discussed above, many factors affect the stock price movement, including political conditions, and not coincidentally, 2004 was the year of the general election, which consequently had a direct impact on the capital market.

Table 11
Regression result for group 2

Variables	*CAAR -1to+1*		*CAAR -3to+3*		*CAAR -5to+5*		*CAAR -10to+10*	
	Reg.1	*Reg.2*	*Reg.1*	*Reg.2*	*Reg.1*	*Reg.2*	*Reg.1*	*Reg.2*
Constant	0.1620	0.0861	0.2493***	0.2596*	0.7633***	0.7490***	0.0701	0.1205
	(0.1053)	(0.1396)	(0.0729)	(0.1523)	(0.1586)	(0.2167)	(0.2626)	(0.2963)
Tobin's Q	0.0120	0.0103	0.0152***	0.0199**	0.0570***	0.0593***	0.0003	0.0067
	(0.0080)	(0.0108)	(0.0060)	(0.0122)	(0.0125)	(0.0171)	(0.0198)	(0.0231)
Return on Asset	0.1545	0.0751	0.2687**	0.1691*	0.7377***	0.4775**	0.2929	0.4189
	(0.1586)	(0.1632)	(0.1324)	(0.1522)	(0.2450)	(0.2210)	(0.02965)	(0.2936)
Return on Equity	0.3156	0.1537	0.5487**	0.3444*	0.1495***	0.9665**	0.5982	0.7932
	(0.3211)	(0.3309)	(0.2683)	(0.3087)	(0.4961)	(0.4480)	(0.6000)	(0.5951)
Year 2004		-0.0537***		-0.0617***		-0.0515***		-0.1000**
		(0.0127)		(0.0229)		(0.0210)		(0.0438)
Year 2005		0.0002		0.0092		0.0177		0.1229***
		(0.0223)		(0.0139)		(0.0216)		(0.0050)
Year 2007		0.0150		0.0126		0.1130***		0.0460
		(0.0167)		(0.0170)		(0.0220)		(0.0400)
Year 2008		-0.0456***		-0.0210		-0.0202		0.0940***
		(0.0137)		(0.0151)		(0.0317)		(0.0344)
Obs.	14	14	14	14	14	14	14	14
Wald chi2	9.16	90002.14	39.38	90320.18	31.60	56.90	7.53	15.63
Prob>Chi2	0.0272	0.0000	0.0000	0.0000	0.0000	0.0000	0.0568	0.0000
R-squared	0.2502	0.5482	0.4494	0.6702	0.3655	0.6528	0.2560	0.6882
Root MSE	0.0304	0.0236	0.0321	0.0249	0.0525	0.0389	0.0627	0.0406

*** Sig. at 1% significance level, **Sig. at 5% significance level, *Sig. at 10% significance level. Standard deviation is in parentheses

5. CONCLUSIONS

The results for group 1 reveal that (1) the Islamic debt characteristics, which are debt to equity ratio and firm size, have a positive and significant impact on shareholders' wealth, while the Islamic debt offering size and maturity have no significant impact on shareholders' wealth. (2) With regards to the frequency and types of Islamic debt issued, only the first issuance of Islamic debt and Islamic debt-types have a positive and significant impact on shareholders' wealth. (3) In terms of the firm's value and/or firm's financial performance, only EVA and ROA have a positive and significant impact on shareholders' wealth. Overall, the debt to equity ratio, the firm size, the first issuance of Islamic debt, the debt-type of Islamic debt, and the firm's performance have a positive and significant impact on shareholders' wealth. These positive and significant impacts are supported by some key advantages of the Malaysian market. Firstly, Malaysia has a comprehensive regulatory and supervisory framework. Secondly, Malaysia has a wide investor's base through which the issuers look to Islamic debt as an alternative way to tap into cash-rich investors from the Middle East. Thirdly, Malaysia has a liberal policy regarding foreign exchange rules. Fourthly, Malaysia has a wide base of expertise and talents in the Islamic finance industry. Fifthly, Malaysia provides tax incentives for Islamic finance instruments, particularly Islamic debt. Last but not least, Malaysia is committed towards a continuous product development of Islamic financial instruments as debates continue among Islamic scholars about how Islamic debt complies with Islamic law. Such debates provide a platform for the on-going innovation of Islamic finance instruments and compel Malaysia to serve as a catalyst for future Islamic debt forms.

The results for group 2 reveal that (1) the Islamic debt characteristics, which are Islamic debt maturity and debt to equity ratio, have a positive and significant impact on shareholders' wealth while Islamic debt offering size and firm size have no significant impact on shareholders' wealth. This result is slightly different to the result obtained for group 1, in which only debt equity ratio and firm size have positive and significant impacts. (2) As for the frequency and type of Islamic debt issued, only the first issuance of Islamic debt and Islamic asset-types have a positive and significant impact on shareholders' wealth. This result is similar to the result obtained for group 2, however, there is, of course, no debt-type for group 2. (3) In terms of the firm's value and/or firm's financial performance; Tobin's Q, ROA and ROE have a positive and significant impact on shareholders' wealth. This result is slightly different than the result obtained for group 1, barring the Tobin's Q result and the lack of an EVA variable for group 2. Overall, the Islamic debt maturity, the debt to equity ratio, the first issuance of Islamic debt, the asset-type of Islamic debt, and the firm's performance are factors that have a positive and significant impact on shareholders' wealth. Unlike Malaysia, which has a number of advantages to support their Islamic capital market, particularly the Islamic debt market, Indonesia has few advantages. However, the positive results obtained of there being significant impacts are likely to do with the fact that Indonesia, with a population twelve times greater than Malaysia, has greater

opportunities in terms of size and growth in the future. Therefore, there is greater scope to develop this Islamic finance industry as one of main sources of corporate financing.

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