Cross-Country Analysis of Transparency of Risk Information in Islamic Banks: Measurement and Effect of Islamic Corporate Governance

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Abstract. *This study assesses the level of transparency of risk information in Islamic banks and whether the mechanism of Islamic corporate governance affects the level of transparency of risk information in Islamic banks. Data is collected from annual report and websites of Islamic banks operating in countries included in the list of countries have the most developed Islamic finance market in the world for the period 2014-2017 by performing a content analysis and regression test. This study found that the level of transparency of risk information in Islamic banks is still quite low, most Islamic banks disclose less than 60% of the risk information transparency index items in Islamic banks. In addition, there are no Islamic banks that disclose all information in the index and the highest risk information transparency score is 80.65. The regression results show that Islamic Corporate Governance has a positive association with the level of transparency of risk information in Islamic banks. This finding is very valuable for enhanching and strenthening the role and statusof SSB in governance of Islamic banks and designing policies and relevant standard to improve transparency in Islamic banks.*

Keywords: *Islamic corporate governance; transparency,risk information, Shari'ah Supervisory Board*

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BACKGROUND

Transparency can be defined as providing sufficient, relevant and reliable information for stakeholders (AAOIFI, 2015). In the banking context, transparency is public disclosure related to the provision of information in a timely and reliable manner so that stakeholders can assess the performance and soundness of the bank, business activities, and risk profiles and risk management practices perfomed by banks (BCBS, 2011). Transparency has become a very important issue for banks, to be exact after the various crises that put banks as one of the parties to blame for being considered less transparent (Lahrech et al., 2014). A more transparent and accountable bank will make stakeholders aware of how the bank is run and managed so as to encourage banks to conduct an objective and healthy business (KNKG, 2011). In addition, by having transparency, stakeholders can assess operations and evaluate the inherent risk of a bank (Lahrech et al., 2014) and better informed about the way a bank is managed dan governed dan prevent banks from taking excessive risk (Srairi, 2019).

One of the information that needs to be presented transparently by banks to stakeholders is information about risk (AAOIFI, 2015). Banks is a risk-taking enterprise in nature, so as a part of good governance, the bank is expected to release relevant-risk information to the public (Linsley & Shrives, 2005). Risk is an inevitable element of business (Amran et al., 2009) and consequence of a choice that contains uncertainty that has the potential to produce something unexpected or negative consequences experienced by decision makers (Wahyudi et al., 2015). In addition, risks are associated with imperfect, uncertain, and gharar information. Meanwhile, transparency of risk information is the delivery of information about general, specific, and potential conditions that can cause fluctuations in the value of the company's assets and liabilities (Hassan, 2009). The existence of risk transparency will make it easier for users to evaluate the risk management performed by the company (Ismail et al., 2013) and stakeholder will be able to manage their risk risk posisition (Linsley & Shrives, 2005).

In Islamic banks, the demand for the transparency of risk information is greater than in conventional banks. Other than being regulated by Shariah which requires Islamic bank operations in accordance with ethical rules, Islamic bank operations must also be consistent with financial practices and products in general (Mahdi & Abbes, 2018) and prohibit hiding information from stakeholders. In addition, transparency is very important for Islamic banks because Islamic banks operate using a profit-sharing system (Srairi, 2019). So that fund owners who place funds in Islamic banks using these contracts have a very large interest in the transparency of corporate risk (Ariffin et al., 2009). Investment Account Holders (IAHs) require more transparency in order to monitor their investment (Srairi, 2019). Islamic bank customers need in-depth information in order to be able to assess the use of funds by Islamic banks, the risks, and monitor the results to be obtained. The lack of information dan trust of investor to Islamic banks may lead to the withdrawal of funds and trigger IAHs to stop dealing with Islamic banks (Srairi, 2019).

Risk is one of the information needed by the principal stakeholders of Islamic banks accordance with sharia principles, one of which fulfills the principle of transparency (Smolo & Mirakhor, 2010).

Research on transparency of risk has been mostly conducted on conventional companies and banks such as Al-Shammari (2014;) (AAOIFI, 2015) because the risk is forward-looking information, so banks are required to be more transparent by disclosing sufficient, accurate, relevant, and timely information (Lahrech et al., 2014). By that, Islamic banks can reduce information asymmetry between Islamic banks and stakeholders, especially customers who use certain contracts when placing their funds in Islamic banks Neifar & Jarboui, (2017) and Islamic bank shareholders. Then, providing risk information will provide stakeholders with a clearer understanding of the risks faced by banks and how the bank's strategy in managing these risks is Neifar & Jarboui (2017).

This study aims to see how the influence of the mechanism of sharia governance (Islamic Corporate Governance) on the transparency of Islamic bank risk information. Transparency of risk information is seen from the level of risk disclosure carried out by Islamic banks, because through disclosure banks can provide more comprehensive information to stakeholders because disclosure contains qualitative and quantitative information (Suwardjono, 2005). This risk disclosure includes general information related to risk, disclosure of each type of risk and how Islamic banks manage these risks.

The main difference between Islamic banks and conventional banks is that there is a Sharia Supervisory Board whose task is to oversee the operations and products of Islamic banks to comply with Sharia principles (Antonio, 2001). The important role of SSB in Islamic banks makes DPS in an equal position with the board of directors in the company. Similar to companies and conventional banking, good governance is an important mechanism that must be applied by Islamic banks, so that Islamic banks are indeed banks that operate in

Hassan (2009); Linsley et al., (2006); Naser et al., (2006); ElKelish & Hassan, (2014), so that research transparency of risk information in Islamic banks needs to be done further. In addition, research related to the transparency of Islamic banks that looks more at aspects of corporate governance (Abdullah et al., 2013, 2015; Grassa et al., 2016; Grassa & Chakroun, 2016; Samaha et al., 2015) and disclosure of corporate social responsibility in Islamic banks (El-Halaby & Hussainey, 2016; Khurshid et al., 2014). Research that scrutiny how transparency of risk information in Islamic banks is still descriptive and qualitative, such as Ismail et al. (2013) who examined the disclosure level of risk management in Islamic financial institutions in Malaysia before, during, and after the 2008 financial crisis. Research of Neifar & Jarboui (2017) has been more developed by looking at the factors that influence the disclosure of operational risk in Islamic banks. From this previous study, it can be seen that research on transparency of risk information in Islamic banks is still in the exploratory stage and needs to be further developed.

This study seeks to adress some of the limitations of previous research by making some contributions. First, to the best of our knowledge, this is the first paper that empirically studies the relationship between Islamic Corporate Governance and transparensy of risk information in Islamic banks operating in five countries having most developend Islamic financial market in the world especially in the context Indonesia, Bahrain, Jordan, Oman and Qatar. This is done to find out how transparency in countries that have the most developed Islamic financial markets compared to other countries in the world. This research will provide new insights on the transparency of Islamic banks outside the Gulf Cooperation Council (GCC), Middle East and North Africa (MENA) and South Asia region that has been carried out by Bukair & Rahman (2015) Farook et al., 2011).T his research will enrich the literature on the transparency risk information in Islamic banks, not only a description of the level of risk transparency of Islamic banks, but also look at because disclosure is needed to obtain legitimacy, stakeholder support, and fulfillment of sharia principles (Abdullah et al., 2013). In the context of this research, Islamic banks need to disclose information related to the factors that influence the transparency. Second, this study uses the Transparency of Risk Information Index (TRII) in Islamic banks constructed by Gusrianti (2019) specifically for Islamic banks so that it considers the characteristics and types of risks faced by Islamic banks. This index is prepared to fullfil the risk information needs of the main stakeholders of Islamic banks. Third, we use long research period, 4 years in length, with panel data regression.

LITERATURE REVIEW

Agency Theory

Jensen & Meckling, (1976) explained the agency relationship in the companies in agency theory. According to agency theory, the company is a collection of contracts (nexus of contract) between the owners of economic resources (principals) and managers (agents) who manage and control these resources. The principal delegates authority to the agent to manage the resources in line with the interests of the principals. In agency relationships, a problem called agency conflict occurs because of the asymmetry of information between these two parties. Generally, an agent has more information about the actual financial and operating position of the entity than the principal (Fama & Jensen, 1983). In addition, this theory comes from a conflict of interest due to differences in goals, where management (agent) does not always act in line with what the owner (principal) expects.

This agency conflict creates agency costs (Jensen & Meckling, 1976), one of which is in the form of supervision fees used to monitor whether the agent acted in the interests of the principal by accurately reporting activities done by the company. This disclosure must fulfill the information needs of stakeholders

company risk so that stakeholders can get the information to assess the transparency of risk information in Islamic banks.

Transparency of risk information in Islamic banks

Islam admits individual ownership, but the ownership is not absolute or eternal because Allah is the owner of all things given to human beings as a vicegerent of Allah (khalifa) on earth. Sharia rules require Islamic financial institutions to have wealth and welfare accountability to their stakeholders (Obid & Naysary, 2014) so that disclosure is needed to assist the public (ummah) in knowing how the impact and benefits of a person or business on the welfare of society (Maali et al., 2006). Furthermore, from a corporate governance point of view, corporate disclosure and transparency are also necessary because better transparency and disclosure can reduce the asymmetry of information between management and stakeholders (Maali et al., 2006).

In the context of a sharia-compliant firm, the primary objective in financial reporting is to demonstrate that an entity that operates in accordance with sharia principles is already compliant with sharia (Baydoun & Willet, 1998). Another goal is the purpose of reporting in a conventional context (western model), which is to help decision-makers to make the right economic decisions(Maali et al., 2006). The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) adopted the main objective of financial reporting, as stated by Baydoun & Willet (1998), in setting the objectives of financial accounting for Islamic financial institutions and banking, namely to demonstrate that entities operate in accordance with sharia rules (principles) have complied with sharia. This requires Islamic financial institutions to disclose the information needed for the people (stakeholders) about their operations even if the information is not profitable for the bank (Maali et al., 2006).

Companies are considered transparent when making appropriate and adequate disclosures (AAOIFI, 2015) because transparency contains elements of disclosure and the provision of adequate information and easily accessible to stakeholders (KNKG, 2011).. Adequate disclosure means that financial statements must contain information that is useful to the users of financial statements. Suwardjono (2005) explains that disclosures made by companies are an integral part of financial reporting and are the final step in the process of presenting information in the form of a set of financial statements. Disclosure is not simply financial reporting but also includes the deliverance of qualitative or non-quantitative information. This disclosure can be made in financial statements, notes to financial statements, or other forms of presentations that provide the information needed by users of financial statements Suwardjono (2005). Thus, the transparency risk information in Islamic banks can be seen through the level of disclosure of information related to risk and risk management made by Islamic banks.

Risk faced by Islamic banks

Risk is a consequence of a choice containing uncertainty with the potential to produce something undesirable or negative consequences experienced by decision-makers (Wahyudi, et al., 2015). Risk is related to the concept of imperfect information, uncertainty, and gharar. Risk begins with imperfect information in various decision-making processes that will lead to uncertainty. In Islam, the closest term to describe imperfect information is gharar

In 2007, the Islamic Financial Service Board (IFSB) in IFSB 4 regarding disclosures to promote transparency and market discipline for institutions offering Islamic financial services (excluding takaful and Islamic mutual funds) classify the risks faced by Islamic banks into 6 types of risks. These risks including financing risk, market risk, liquidity risk, operational risk, rate of return risk, and displaced commercial risk. Financing risk occurs when a customer or other party fail to fulfill their obligations to Islamic banks based on things that have been agreed upon in the contract (Wahyudi et al., 2015). (IFSB (2007) states that financing risk indicates the exposure of Islamic banks to the possibility that partners will fail to fulfill their obligations in accordance with agreed terms. This applies to Islamic financial institutions that manage exposure to receivables and lease financing (for example in murabahah, diminishing musharakah, and ijarah) and working capital financing transactions/projects (such as in istishna', salam, and mudharabah contracts). Moreover, credit risk is also associated with non-traded equity instruments, such as those based on mudharabah and musyarakah contracts, which are held for investment purposes and not for trading (IFSB, 2007).

Liquidity risk arises from the potential inability of Islamic banks to meet obligations that have reached maturity date (Wahyudi et al., 2015) or potential inability to fund asset enhancements without bearing unacceptable costs or losses (IFSB, 2007). In relation to the financing provided, liquidity risk occurs when financing provided by banks to third parties/customers often experiences default or receives returns that are not as expected. Meanwhile, market risk occurs from adverse movements of the market, fluctuation or decline in value of the trading instrument, for example, fluctuation and/ or declining of stock prices, commodity prices, Sukuk prices, and foreign currency exchange rates of various assets held in portfolios that can cause actual losses (IFSB, 2007). Market risk arises from the instability of the current market value of certain assets and foreign exchange rates, including exchange rate risk, equity price risk, commodity price risk, and benchmark rate risk.

Operational risk is the risk of loss caused by an inadequate internal control system, failure of internal process, human error, failure of system, and/ or the possibility of some external events that can disrupt the bank's operating activities (Wahyudi et al., 2015). Operational risk also includes compliance risk (non-compliance with sharia), failure in fiduciary responsibility to fund providers, and business risk (IFSB, 2007). It can be caused by counterparty risk inherent in financing risk in Islamic banks, which involves several parties such as relevant Islamic banks, buyers, tenants, business partners, suppliers, and other parties.

Return risk arises because of changes in the rate of return paid by Islamic banks to their customers which causes changes in customer behavior (Wahyudi et al., 2015). This can occur when there is a difference between the returns expected by customers (fund owners, investment account holders) who place their funds in Islamic banks, and the returns provided by banks to customers. If the yield provided by the bank does not match customer expectations, this will trigger transactional customers to move their funds to other banks, either to other Islamic banks or even to conventional banks (Wahyudi et al., 2015). Return risk in Islamic banks is related to the return on investment activities at the end of the investment period and the impact on net income after the distribution of returns with the investment account holder (IAH).

Rate of return risk occurs because of the changes in the rate of return paid by Islamic banks to their customer which causes changes in customer behavior (Wahyudi et al., 2015). Technically, this risk can occur when there is a difference between the returns expected by customers who place their funds in Islamic banks and the returns provided by banks to customers. Displaced commercial risk (DCR) is the amount of risk transferred to shareholders to protect fund owners (IAH) from incurring some or all of the risks they face under the contract in the mudharabah funding contract (Wahyudi et al., 2015).

Corporate Governance in Islamic banks

In addition to having a governance structure like conventional banks, Islamic banks have Islamic Corporate Governance implemented by the Sharia Supervisory Board. The Sharia Supervisory Board (SSB) is an independent internal organ contained in Islamic banks. SSB supervises operations and products of Islamic in order to comply with Shariah rules (Antonio, 2001). DPS oversees, reviews, and evaluates every single activity and operation of Islamic banks so that it is in accordance with sharia principles (Haniffa & Hudaib, 2007; Magalhães & Al-Saad, 2013). Boulanouar & Alqahtani (2016) classify the role of SSB into a consultative role and a supervisory role. A consultative role is performed by SSB during the development of new financial products, meanwhile, a supervisory role ensures that the operations and activities of Islamic banks are in accordance with sharia principles.

Prior Research

Research related to the transparency of risk through disclosures in the context of banks has been done by several researchers. Lajili & Zéghal (2005) examines risk management disclosures in Canadian companies and find that the voluntary disclosure of risk information still varies. Linsley et al. (2006) who examine risk disclosure in the UK and Canadian banks find that there is no significant difference between risk disclosure in banks in these two countries, and risk disclosure is positively related to leverage and firm size.

Hassan (2009) examines risk disclosure in non-financial companies in the United Arab Emirates and finds that the index of risk disclosure is affected by the level of company risk and the type of company industry, while reserves and company size have no significant effect on risk disclosure. Amran et al. (2009) explore the avaiability of risk discosure in the annual report of Malaysian companies by doing analysis content and find that disclosure of risk information in the annual reports is much less compare to Linsley and Shrives (2006). In the hypothesis testing, Amran et al. (2009) find that size have significant relationship with risk disclosure. Ismail et al. (2013) assess the disclosure of risk management in Malaysian Islamic financial institutions and find that risk management disclosure of Islamic financial institutions in Malaysia is at a satisfactory level and there is an increase before and after the crisis. Then Al-Shammari (2014) who examines risk disclosure in Kuwaiti companies finds that risk disclosure is positively related to company size, complexity, liquidity, and type of auditor. Meanwhile, leverage and profitability are not significantly related to the risk disclosure of the company.

Abdallah et al., (2015) examine the determinants of risk disclosure in GCC countries, find that the risk disclosure done by Islamic banks is lower than conventional banks, and the risk disclosure of Islamic banks will be higher if Islamic banks have high-quality corporate governance quality. Neifar & Jarboui (2017) assess the operational risk disclosure of Islamic banks and find that independent commissioners, CEO duality, the presence of supervisory organs such as SSB, and the type of auditor affect the operational risk information disclosed by Islamic banks in annual reports.

Hypothesis Development

In Islamic banking, the existence of a Sharia Supervisory Board (SSB) will strengthen corporate governance. This is because SSB supervises activities and operations of Islamic banks in order to appropriate with sharia rules, one of which is to avoid gharar by increasing corporate disclosure (Abdullah et al., 2015). SSB characteristics including the size of SSB, cross-membership of SSB, and expertise of SSB affect the transparency of can be seen from corporate disclosure such as corporate governance disclosure (Abdullah et al., 2015). The three characteristics of SSB show the resources and capabilities owned by the SSB to supervising and ensuring sharia compliance in Islamic banks.

Companies having larger SSB sizes have more resources and stronger capabilities to supervise company activities, such as company reports. By having larger number of resources, SSB can divide tasks and delegate authority among the members of SSB (Abdullah et al., 2015) in performing their duties. SSB will be more focused and in-depth in reviewing reporting done by the company so that they can be more transparent.

In non-shariah compliant (conventional) firms, often the size of the supervisory board is related to disclosure made by a company. It finally leads to the transparency of that company. Husted & Sousa-Filho (2018) find that the number of board of directors is positively related to Environmental, Social, and Governance (ESG) disclosure in companies operating in South America. In public companies in Kenya, companies having a higher number of boards disclose more information about internal strategy and corporate resources (Abeysekera, 2010). SSB having more members would be more effective in monitoring activities related to social issues in Islamic banks based on sharia rules and principles in Islamic banks (Bukair & Rahman, 2013). In addition, Samaha et al. (2015) conducts a meta-analysis of prior studies and find that most studies conclude that board size has a positives relationship with disclosure. On the other hand, Elgammal et al. (2018) find that the number of independent commissioners (non-executive directors) is negatively related to risk disclosure in Qatari companies. By assuming there is a diversity of expertise, industry experience, and perspectives among member of the board, a board with a larger size will increase the number of expertise because of a larger number of human resources (Hidalgo et al., 2011) which form corporate governance and conduct a more in-depth study of corporate reporting especially related to corporate governance which will increase the effectiveness of the board which has implications for more (Hidalgo et al., 2011) so that the company is more transparent (Abdullah et al., 2015). In other words, the size (number) of the SSB will affect the level of transparency in Islamic banks which can be seen from the disclosure level.

Cross-membership of SSB occurs when a member of the SSB of an Islamic bank at the same time also serves as a member or chairman of the SSB at other Islamic financial institutions (Abdullah et al., 2013). The reason behind cross-membership is generally the need for appropriate human resources who are capable to perform SSB functions properly (Samra, 2016). As on the board of directors, expertise is a very important aspect to carry out duties of SSB (Abdullah et al., 2013). Cross-membership makes SSB become more effective in performing its duties because of its expertise (Samra, 2016) and status (Badolato et al., 2014). The member of SSB who serves in several DPS will be more knowledgeable and experienced and able to make comparisons and finally determine the best governance practices that can be implemented in the Islamic bank (Abdallah et al., 2015). The insights and experience gained as SSB in an Islamic bank can be consolidated with the insights gained from the same position in other Islamic financial institutions. Thus, cross-membership of SSB reflects more capabilities and experience. This capability will improve the effectiveness of SSB in supervising Islamic bank activities because SSB has a better understanding of Islamic Corporate Governance practices. Abdullah et al. (2013) prove that cross-membership is positively affecting SSB disclosure in Islamic banks.

From the description above, it can be concluded that expertise is the most important characteristic to improve the transparency of the board. To properly do their duties, the SSB must consist of members having a good understanding of Islamic rules, expertise in economics, accounting, banking, and finance (Abdallah et al., 2015; Samra, 2016). The expertise of SSB members in banking, economics, or finance of SSB affects the disclosure of SSB in Islamic banks (Abdullah et al., 2013). With the increase in the quality/expertise of SSB, the quantity of disclosure will increase (Hidalgo et al., 2011) because SSB members with such expertise will have a better understanding of the importance of transparency to stakeholders by doing more disclosures in the report of Islamic bank (Abdullah et al., 2015). Muda (2017) examines the relationship between SSB expertise and disclosure in the Indonesian context and finds that SSB expertise is positively related to disclosure in the SSB report. The higher the quality/expertise of SSB, the higher quantity of disclosure. Thus, we propose a hypothesis, that there is a positive relationship between the characteristics of SSB and the transparency of risk information in Islamic banks

RESEARCH METHODOLOGY

Sample

The research sample is determined by the purposive sampling method. The primary source of research data is annual report of Islamic banks because annual report is mandated document produced every year and expected to provide useful information to user for better decision-making (Amran et al., 2009). The other source is risk-related inforation offcially published by Islamic banks. Data is collected by conducting content analysis. Content analysis is widely used to collect data in conducting research and is still used in recent studies such as Srairi (2019).

This research is conducted on Islamic banks operating in countries included in the top 10 countries having the most developed Islamic financial markets in the world based on Thomson Reuters Islamic Finance Development Indicator (IFDI) Report issued by Thomson Reuters in 2015 and 2016. Other criteria used to determine the sample are (a) publishing a complete 2014-2017 annual reports for the year ended December 31, (b) presenting temporary syirkah funds, in the financial statement, separately from liabilities and equity (mezzanine level) in accordance with Financial Accounting Standard 1 issued by AAOIFI, and (c) having complete financial and non-financial data related to research variables. According to these criteria and based on research done by Suandi (2017) and AOSSG (2011), countries that meet the aforementioned criteria are Islamic banks operating in Indonesia, Bahrain, Jordan, Qatar, and Oman. The research sample amounted to 30 Islamic banks with a total of 118 observations.

Variable Definition

Dependent variable in this study is the transparency of risk information in Islamic bank. This variabel is measured by using Transparency of Risk Information Index (TRII) in Islamic Banks developed by Gusrianti (2019) consisting of various risk information that must and should be disclosed to stakeholders by Islamic banks. Measurement of corporate transparency by looking at the level of disclosure made by the company has also been carried out in previous studies. Disclosure of information in an accurate and accessible manner allows stakeholder to better assess the performance of the bank (Srairi, 2019).

Patel et al. (2002) conducts a study to assess the transparency of companies in developing countries using an index developed by Standard & Poor's called the Transparency & Disclosure (T&D) Score. In the context of Islamic banks, this index has also been used by Grassa (2018) dan Lahrech et al., (2014). Srairi (2019) construct a transparency index based on several international regulatory documents. Users of financial statements in Islamic entities require different, unique, and specific information and must describe the nature of the relationship between the entity and the transaction (AAOIFI, 2015). Therefore, this study does not use the T&D Score, but uses the risk information transparency index on Islamic banks developed by Gusrianti (2019).

Table 1. Components of Transparency of Risk Information Index in Islamic Banks

Items	Components	Sources/References/Literature
General information	General information related to risk of Islamic Bank	FAS 1, IFSB 4
Risk faced by Islamic Banks	Liquidity risk, financing risk, operational risk, market risk, rate of return risk dand displaced commercial risk	IFSB 4, Neifar & Jarboui, (2017), Maulana (2018)

The transparency of risk information in Islamic bank is measured by looking at the level of risk disclosure carried out by Islamic banks using the Transparency of Risk Information Indeks. To obtain the value of transparency of risk information, a scoring is carried out on the items disclosed.

$$\mathbf{TRII_{xy}} = \frac{\sum \mathbf{D_{xy}}}{\mathbf{n}} \quad (3.1)$$

TRII : Transparency of Risk Information Index

$\sum D_{it}$: Skor pengungkapan informasi risiko perusahaan x pada tahun y

n : Maximum of disclosure sore in Islamic Bank

The relationship between the independent variable and the dependent variable can be influenced by other factors that are also influential, but are not included in the research model. These factors need to be controlled so that the research results are not biased. There are three control variables used, namely company size, profitability, company age, and GDP per capita.

Table 2. Index for Measuring Islamic Corporate Governance

SSB Characteristics	Measurements	Supporting Literature
Number of SBB (SSBSize))	1 = at least 3 SSB member 0 = less than 3 SBB member	Maulana (2018), Abdullah et al. (2015), Farook et al. (2011)
Cross-membership of SSB (SSBCM)	1 = at least 1 member with cross-membership 0 = no member with cross-membership	Maulana (2018), El-Halaby & Hussainey (2016), Abdullah et al. (2015), Farook et al. (2011),
Business and Economic Expertise (Business)	1 = at lest 1 member has business and economic – undergraduate qualification 0 = no member has business and economic – undergraduate qualification	Abdullah et al. (2015), Farook et al. (2011)
Sharia Expertise (Shar)	1 = at least 1 member has Islamic law / shariah – undergraduate qualification 0 = no member has has Islamic law / shariah – undergraduate qualification	Farook et al. (2011), Maulana (2018), Abdullah et al. (2015)

Doctoral Education (doct)	1 = at least 1 member has doctoral qualification 0 = no member has doctoral qualification	Farook et al. (2011), Maulana (2018), Abdullah et al. (2015)

RESULT AND DISCUSSION

Descriptive Statistics.

The descriptive statistics of this research variable can be seen in Table 3. The average score of transparency of risk information in Islamic banks as a whole is 59.06% and the median value is 55.37%. This means that the level of transparency of risk information on average at Islamic banks is still quite low, which is less than 60% of the risk that must be disclosed by Islamic banks. The highest score is 80.65% and the lowest score is 30.11%. The highest level of transparency of risk information is owned by Islamic banks operating in Bahrain, namely Bahrain Islamic Bank which is the oldest Islamic bank in Bahrain. Meanwhile, the lowest risk transparency value is found in Islamic banks operating in Indonesia, namely Bank Jabar Banten Syariah. Furthermore, descriptive statistics also show that the level of risk transparency of Islamic banks is quite varied, which can be seen from the standard deviation of the risk transparency index of 12.51%. The results of this study are still in line with Lajili & Zéghal (2005) who find that the provision of risk information on companies in Canada that was carried out through voluntary disclosure varied.

Table 3. Descriptive Statistics of Research Variables

Variables	N	Median	Std. Dev	Mean	Max	Min
TRII	118	55.375	12.50785	59.0579	80.65	30.11
ICG	118	4	.6534988	3.983051	5	2
TA	118	21.465	1.01e+11	1.46e+10	1.103+12	9.42e+07
Age	118	9	10.35357	13.09322	39	2
GDP	118	15102.38	21796.66	19191.3	86852.71	3334.55
ROA	118	0.78	2.943879	.3125424	5.67	-20.13

Annotation**:** **TRII**= Transparency of Risk Information Index; **ICG**= Islamic Corporate Governance; **TA**= Total of Assets, proxy for measuring size of Islamic banks; **ROA**= *Return On Assets*, proxy for measuring profitability; **Age**= age of Islamic banks; **GDP**= GDP adjusted with population

The Islamic governance score (ICG) has an average and median value of 4 which means that most Islamic banks meet the 4 characteristics of the Sharia Supervisory Board as measured in this study. The lowest sharia governance score is 2 (Bank Aceh Syariah, Indonesia) and the highest is 5. The highest sharia governance score is mostly owned by Islamic banks in Indonesia.

Uji Hipotesis

Table 4 shows that the coefficient of determination (adjusted-R2) of this research model is 0.1782. It means that the independent variable in this study can explain 17.82% of the variation occurs to the dependent variable, while another 82.18% of the variation occurs in the dependent variable is explained by other variables outside of research model. The Prob value (F-Statistic) of the research model is 0.0000. This means that all independent variables used in this study simultaneously influence dependent variable.

Tabel 4. Hasil Uji Regresi

$$\mathbf{ITR_{it}} = \alpha_0 + \alpha_1\mathbf{ICG}_{xy} + \alpha_2\mathbf{LnTA}_{xy} + \alpha_3\mathbf{ROA}_{xy} + \alpha_4\mathbf{Age}_{xy} + \alpha_5\mathbf{G}DP_{xy} + \mathcal{E}_{xy}$$

TRII	Prediksi	Coef.	t-stat	P-value	Sig
ICG	**H**: +	1.1782	3.00	0.003	***
LnTA	+	-0.1917683	-3.10	0.013	***
ROA	+	-0.1586292	-1.38	0.156	
Age	+	-0.0566611	-0.40	0.834	
GDP	+	0.0000626	0.71	0.159	*
Cons	?	53.47305	15.29	0.000	***
Number of Observation			118		
Year			Yes		
Prob (F-statistic)			0.0000***		
Adjusted-R^2			0.1269		

***, **, * level signifikansi, masing-masing pada alfa 1%, 5%, dan 10%

Annotation**:** **TRII**= Transparency of Risk Information Index; **ICG**= Islamic Corporate Governance; **TA**= Total of Assets, proxy for measuring size of Islamic banks; **ROA**= *Return On Assets*, proxy for measuring profitability; **Age**= age of Islamic banks; **GDP**= adjusted with population

The results of the hypothesis testing show that the characteristics of the SSB (ICG) are positively related to the transparency of risk information in Islamic bank. The better the characteristics of the SSB, which is indicated by a high governance score, the higher the transparency of the company's risk. Thus, this study shows that the characteristics of DPS affect the level of risk transparency of Islamic banks.

The characteristics of the SSB, including the size of the SSB, the cross-membership of the SSB, and the expertise of the SSB, reflect the resources and capabilities owned by the SSB to carry out its duties in supervising aspects of sharia compliance. The existence of these three characteristics in the ICG index shows that the resources and capabilities of SSB affect the effectiveness of SSB in performing their duties, especially related to corporate risk reporting activities, so that Islamic banks are more transparent in disclosing company risks.

This results of the study are in line with several previous studies related to company disclosure in providing information to stakeholders. Maulana (2018) finds that Islamic banks that have better SSB qualifications, as indicated by a higher sharia governance score, disclose more Islamic Social Responsibility (ISR) information. Farok et al. (2011) find that Islamic governance in Islamic banks has an effect on the provision of information carried out by Islamic banks, especially on the disclosure of information related to corporate social responsibility. Septyan, (2014) also find that the characteristics of DPS affect the disclosure of information provision by Islamic banks through disclosure.

The results of this study are also in line with more specific research related to the provision of information through disclosure of corporate risk in Islamic banks. Abdallah et al. (2015) find that the disclosure of risk information carried out by Islamic banks is higher if the bank has quality corporate governance. This means that ICG played by SSB in Islamic banks is an important governance in providing transparent risk information in Islamic banks.

CONLUSIONS

Conclusions

This study find that the mechanism of ICG by SSB has a positive relationship with the levelof transparency of risk information in Islamic banks. It means that in the context of transparency of risk, SSB is effective in carrying out its function to encourage companies to be more transparent to stakeholders to reduce information asymmetry between agents and principals. The results of this study are in line with agency theory there is agency conflicts that must be monitored by using appropriate governance mechanisms to align the interests of agents and principals, so that the existing information asymmetry can be reduced.

Implications

This research has several implications. For academics, this research can improve the previous literature, especially regarding the transparency of risk information in Islamic banks. This research enrich the literature on transparency of risk information and risk management. This research can be used to develop knowledge in the field of Islamic accounting, especially transparency of risk information in Islamic banks.

For companies, the results of this study can be used as initial information to evaluate the level of transparency of risk information in Islamic banks and compare them with other Islamic banks. Islamic banks can use the results of this study as a consideration to increase the transparency of Islamic banks to gain public trust and strengthen capital. In addition, Islamic banks must realize that SSB is one of the governance mechanisms must be built properly.

For investors, fund owners, and other stakeholders, the results of this study can be used as an illustration and consideration for evaluating how Islamic banks manage risk and provide transparent risk information to stakeholders. For the government and regulators, this research will be a description of how transparency of risk information in Islamic bank is and whether it has met the information needs of stakeholders. The results of this study also show the role of SSB in the transparency of risk information in Islamic bank and the importance of encouraging Islamic banks to build strong Islamic Corporate Governance within the company by making policies that will improve the quality of SSB.

Limitations and Recommendations

This study has several limitations. First, this study uses countries that have developed Islamic financial markets in the world so that the research results can only be generalized according to this scope. The sample of this study includes 5 countries that are considered to meet the research criteria and are guided by the research of Suandi (2017) and AOSSG (2012). The sample used in this study is still limited, because many Islamic banks do not present profit-sharing funding clearly and separately from debt and equity. This happens because some of them do not use the AAOIFI standard or use the AAOIFI standard but do not fully present the required research data. Future research can try to use a sample of Islamic banks in various countries in order to obtain more research data and cover a wider area.

Data is collected manually, so it takes a long time to collect research data with a research scope that is not too broad. Further research can use software assistance to collect data using various representative and valid keywords so as to facilitate the data collection process and reduce the possibility of errors or subjectivity.

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