

## **Abstract**

In this study we examine the incentives of the derivatives use of Taiwanese non-financial firms. We find the use of derivatives of Taiwanese firms positively correlated with firm size. Derivative-using firms tend to exhibit higher leverage than nonusers. Furthermore, the evidence indicates that firms with foreign sales are more likely to use derivatives. In addition, the evidence indicates that the role of nature hedge may play an important role for Taiwanese firms. We find that foreign revenue significantly affects the use of off-balance sheet hedge for firms without foreign debts. In contrast, we did not find strong evidence that foreign revenue is important in hedging decisions for exporting firms with foreign debts. Finally we examine the factors influencing the use of swaps versus forward contracts. The evidence suggests that swaps are preferred by firms with predetermined and repeated flow of costs and revenues; while forward contracts are used for transactions with uncertain timing and values.

*Key words: derivative uses, off-balance sheet hedge, nature hedge*