ABSTRACT

One of the biggest risk faced by firm that conduct international activity is foreign exchange risk. Foreign exchange risk can lead to big loss for company if the foreign exchange rate has changes significantly. Hedging with foreign currency derivative instruments becomes an alternative which can be used to minimize foreign exchange risk. This study was conducted to examine the effect of financial distress, leverage, liquidity, cash flow volatility and foreign sales on the probability of hedging implementation by non-financial companies listed on the Indonesian Stock Exchange during 2013 – 2016.

The populations used in this research are non-financial companies in Indonesia which has registered in Bloomberg in 2013 – 2016. The sample used in this study is 83 companies where obtained using purposive sampling method. The data are obtained from Bloomberg and company's annual report. Logistic regression was used to analyze the data in this research model because the type of data used are metric and non metric. Logistic regression has contains the Overall Fit Model so it doesn't require normality test. The results of Hosmer and Lemeshow's Test showed that the model used in this study fit with the data.

The results of this study provide empirical evidence that the financial distress, leverage, liquidity and cash flow volatility variable significantly influence the company's hedging policy. While the foreign sales variable has a positive but not significant correlation to the company's hedging policy. Based on results of logistic regression found that financial distress, leverage, liquidity, cash flow volatility and foreign sales variable can explain the company's hedging decision using derivative instruments by 41,5% and the rest is explained by other variables outside the model.

***Keywords:* Hedging, Derivative, Risk Management, Financial Distress, Leverage, Liquidity, Cash Flow Volatility and Foreign Sales.**