

## **Abstract**

This paper examines the important factors that affect Thai non-financial firms' decisions to hedge against foreign currency exposure by using derivatives and further verify the impacts of these factors to the degrees of hedging. The results suggest that Thai firms use foreign currency derivatives, mainly, to reduce expected financial distress and also to mitigate the foreign currency cash flow volatility. The probability of financial distress and the variation of foreign cash flow are the key determinants of firms' decision to hedge and on their level of hedging. In addition, these two factors are also important for Thai firms for their decision to use foreign liability as natural hedging instrument.