



UNIVERSITI TEKNOLOGI MARA

**DETERMINANTS OF FINANCIAL
DERIVATIVE USAGE IN MALAYSIA**

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ABSTRACT

A research study of the Determinants of Financial Derivative Usage in Malaysia using the Panel Ordinary Least Squares (POLS) regression method by applying the econometrics knowledge. Seven financial companies in Malaysia had been choose and the sample of thirty-five number of observations was obtained from the chosen financial companies' annual financial report (2015-2019). The finding of this research study found that the firm size, liquidity ratios, solvency, growth opportunities and the market value able to explained the financial derivative usage in Malaysia.

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CHAPTER ONE

INTRODUCTION

Financial derivative is commonly known as an innovation tools for investors to minimize and managing their risks of returns. In the general knowledge of finance, derivatives are contract of forward, futures, swap and options contract. Financial firms are mainly involved in the activities that exposed them to faces many types of risks that may affects their financial performances. Risks may come from industry specific, firm specific, domestic and international. Most of the financial firms in Malaysia were involved and in line with the exchange rate activities. So, they might face by the international risks. However, firms can manage risk that may distract the firm financial performance in various way such as derivative instruments. According to Bartram, Brown and Fehle (2003), derivatives had become widespread practice in the risk management activities around the world. Usually, investors or companies that used derivatives are subjected to the foreign exchange rates business. This proved by Kroszner (1999) that many businesses that involved exchanges used future and option contracts to minimize the losses. In other word, derivatives are helping companies to manage the foreign exchange risks together with the interest rate risks as these risks are uncontrollable due to the price fluctuations and economic conditions.

In Malaysia, derivatives are not so familiar among the citizens. But, according to Rehanna, Zeeshan, Tahira and Muhammad (2016) in real situation, the financial derivative had been used by many financial institutions started in late 1970s and 1980s (when the market terminal had proven to many institutions). While, Al-Amine (2005) proved that the importance of financial derivatives usage of managing risk is very helpful in past financial structure of the economies. This study is design to look up the determinants of financial derivative usage and focusing more on financial risk management and financial firms' performance in Malaysia.

1.0 Background of Study

As day by day, this world is experiencing many changes in terms of technologies and skills, same goes to the risks management in the economics and finance sector in the wold. Derivatives is one of the tools that used to control the exchange rate risks. Many research had been done in