Abstract

This paper analyzes the impact of the use of derivatives and the direction and magnitude of the premium coverage related to each type of derivative instrument on firm value for a sample of non-financial Brazilian companies traded in the period from 2004 to 2007. The results indicate that the use of derivatives is related to a significant and positive impact on companies' market value. The evidence shows that the use of derivatives is associated with a “premium coverage”. Thus, it can be concluded that firms adopting risk management practices using derivatives have a higher market value, in the Brazilian market, compared to firms that do not use these financial instruments (hedging premium). Results also indicate that, when the analysis focuses on the type of instrument used, the risk management with different types of derivatives instruments generates an impact of heterogeneous magnitude on firm value. Swap and future/forward contracts have a positive and statistically significant impact. As for the options, although positive, the impact was not statistically significant. Therefore, the results not only confirm the expectation that the use of derivatives has a statistically significant positive effect on firm value, but also show that there is a relevant difference in effects associated with different derivatives types. Together, the results support the fact that investors are willing to pay a higher value for firms that actively manage financial risk in more volatile environments such as Brazil, and this willingness varies according to the instrument type used and the possible combination of these financial derivatives. In future research, an analysis of the causes of the heterogeneous impact of different derivative instruments should be performed to better understand the mechanisms by which risk management policy creates value for firms.

Keywords
Derivatives, Risk management, Firm value, Hedging, Brazil.