

## ABSTRACT

*In the current era of globalization, there are many economic activities cause risk that cannot be avoided. One of them is a company engaged in financial activities, such as banking. Nowadays banking activities today have an important role in the economy of a country that is related to international activities such as foreign debt. The activity is closely related to the risk of uncertainty caused by fluctuations in currency rates. However, these risks can be minimized by conducting hedging activities with derivative instruments which include forward contracts, futures contracts, swap contracts and option contracts.*

*The purpose of this study is to investigate the effect of liquidity, leverage, and the rupiah exchange rate both simultaneously and partially on the use of derivative instruments as hedging decisions. The object of this study is conventional banks listed on the Stock Exchange in the 2014-2017 period.*

*The data used in this study are secondary data obtained from the banking annual financial reports listed on the Stock Exchange for the period 2014-2017. The sample obtained was 80 observations from 20 conventional banks covering the period 2014-2017. The method used is purposive sampling. The technique used in this analysis is logistic regression and descriptive statistics.*

*The results of this study indicate that the variable liquidity, leverage, and rupiah exchange rate simultaneously have a significant influence on hedging policies. While the partial variable liquidity has a significant positive influence on hedging policy. Leverage variables have a significant negative effect on hedging policies. The variable exchange rate has no influence on hedging policies.*

*From the results of the study, suggestions that can be given to the next researcher in order to develop the use of other variables in research that were not examined in this study. Suggestions given to banks to implement hedging policies to protect assets, especially for banks that have low LDR levels, and high leverage levels.*

*Keywords: liquidity, leverage, rupiah exchange rate, and hedging.*