

# **CURRENT CONTEXT OF USING DERIVATIVES AS RISK MANAGEMENT TECHNIQUE OF SRI LANKAN LISTED COMPANIES**

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## **ABSTRACT**

Risk management has become a vital part of businesses all over the world and firms adopted various risk management techniques to manage risk. This study examines derivatives use in randomly selected 94 listed companies in the Colombo Stock Exchange (CSE), Sri Lanka representing four industry sectors. We find that 41% of the selected firms used derivatives. When we analyze different industry sectors Banking, Finance and Insurance sector recorded fairly low percentage (36%) of using derivatives. In contrast to this Diversified holding companies depicts highest percentage (71%) of derivatives usage. Developed derivatives market yet to be emerged in Sri Lanka and however, there is an increasing trend of using derivatives by Sri Lankan companies. Size of the company has an impact of using derivative instruments. Interest rate swaps, currency swaps and forward exchange contracts mainly used to manage risks in Sri Lankan companies.

**KEYWORDS:** Colombo Stock Exchange, Derivatives, Financial Instrument, Hedging, Risk Management