



**Executive Compensation and Hedging Behavior:
Evidence from Taiwan**

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Abstract: This study examines the relationship between managerial risk-taking incentives and hedging derivatives usage. We have three results. First, executives' risk-taking incentives are negatively related to the hedging derivatives holdings, a result consistent with equity-based compensation that promotes risk taking. Second, the indexed stock options appear to create stronger risk-taking incentives than the traditional stock options. Third, managerial risk-taking incentives are significantly related to executive stock options but not stock holdings.

JEL: G32, M12, M52

Key Words: executive compensation; hedging behavior; risk-taking incentives; agency problems
