Does Climate Disclosure Affect Shareholder Wealth?[1]

Sankarshan Basu
Professor, Finance & Accounting,
IIM Bangalore, Bangalore, Karnataka, 560076, India

Sourav Prasad
PhD candidate, Finance & Accounting
IIM Bodh Gaya, Gaya, Bihar, 824234, India

Abstract

We investigate the impact of the draft rule of mandatory climate disclosure by the US Securities and Exchange Commission (SEC) on shareholder wealth. Using an event study methodology, we analyze the stock market reaction to firms that are affected and not affected by the draft rule. We find that firms affected by the draft rule experience significantly lower market reactions relative to unaffected firms. This effect is stronger for firms headquartered in states dominated by Republicans. Additionally, this effect is weaker for firms operating in the polluting industry. This suggests that, in line with shareholders' expense view, investors perceive mandatory climate disclosure as a cost to the company rather than a value-enhancing measure.

Keywords: Mandatory climate disclosure, Shareholder's wealth, Political ideology, Event study

JEL: G14, G18, G28, G38, Q52, Q54

Highlights:

- Mandatory climate disclosure affects shareholder wealth.
- Firms affected by the rule experience lower returns relative to unaffected firms.
- The effect is weaker for affected firms in the polluting industry.
- The effect is stronger for firms in Republican states.

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Corresponding author: Sourav Prasad (**souravp21@iimbg.ac.in**). Author names appear in lexicographic ordering

1. Introduction

On March 21, 2022, the Securities and Exchange Commission (SEC) announced the first draft of US climate disclosure rules (The rule, hereafter).[2] The SEC received 24000 comment letters to this draft, the highest in SEC history. The proposed draft required reporting Scope 1, 2, and 3 emissions, provided that such information is deemed financially material. This raises critical questions: Does mandatory climate disclosure impact shareholder wealth? If so, what factors influence the magnitude of this effect? We investigate these questions by examining the market reaction to the US SEC's proposed climate disclosure rule, which mandates that certain large publicly traded firms disclose their emissions and the risks associated with the company.[3]

The SEC's proposed climate disclosure rule represents a major regulatory shift, generating strong reactions from investors, policymakers, and corporate stakeholders. In particular, the rule's impact may vary based on firm characteristics, industry affiliation, and political context. Thus, in this paper, using event study methodology, we investigate the market response to affected and unaffected firms. Further, we test how this effect varies depending on the industry affiliation of the company and the political regime in the state where the firm is headquartered.

We find that firms that are affected by the draft rule experience lower returns relative to unaffected firms. This effect is stronger for firms headquartered in states dominated by Republicans and weaker for firms operating in the high-emitting (polluting) industry. Our results remain consistent through several robustness checks, including different event windows, accounting for outliers, and a placebo (falsification) test based on a pseudo-event date.

[2] https://www.sec.gov/newsroom/press-releases/2022-46

[3] The draft rule requires Accelerated Filers (AF) and Large Accelerated Filers (LAF) to report their climate-related disclosures. AFs are firms with a USD 75-700 million market capitalization. LAFs are firms with a market capitalization of more than USD 700 million. Visit https://www.sec.gov/resources-small-businesses/small-business-compliance-guides/accelerated-filer-large-accelerated-filer-definitions for more information.

We contribute to several strands of literature. First, we contribute to the literature showing the announcement effects of mandatory disclosure. In particular, our study closely relates to mandatory disclosure requirements including CSR spending and disclosure in India (Manchiraju & Rajgopal, 2017), ESG disclosure in the EU (Grewal et al., 2019), ESG Disclosure Simplification Act (Wang et al., 2023), and Conflict Mineral Disclosures (Elayan et al., 2021) in the US. Second, we contribute to the literature on climate finance and disclosure and relate to studies examining investors' responses to climate disclosure rules (Amiraslani et al., 2024; Pandey et al., 2024; Pandey & Kumari, 2024). Finally, our work is also related to the economic consequences of political orientation. In particular, we contribute to the strands of literature showing the influence of political ideology on investment decisions (Bialkowski et al., 2007; McCright & Dunlap, 2011; Ziegler, 2017).

The rest of the paper is organized as follows. Section 2 briefs the related literature around mandatory disclosure and hypotheses development. Section 3 presents the empirical design and findings, followed by the conclusion in Section 4.

2. Prior literature and hypothesis development

2.1. Mandatory disclosure

The regulatory requirement for companies to disclose non-financial information has significant economic implications for affected firms. Prior research has investigated the consequences of mandatory disclosure across different domains, including share repurchases (Bonaimé, 2015), environmental, social, and governance (ESG) factors (Doshi et al., 2013; Grewal et al., 2019; Wang et al., 2023), Corporate Social Responsibility (CSR) (Manchiraju & Rajgopal, 2017; Yang et al., 2021), and climate disclosure (Amiraslani et al., 2024; Pandey et al., 2024; Pandey & Kumari, 2024), among others. These studies have specifically explored the impact of mandatory non-financial disclosure on shareholder wealth (Grewal et al., 2019;

Manchiraju & Rajgopal, 2017), emissions (Doshi et al., 2013; Yang et al., 2021), corporate performance (Bonaimé, 2015), debt markets (Aswani et al., 2019).[4]

The effects of mandatory disclosure vary depending on the nature of the disclosure. For instance, mandatory reporting of repurchase transactions has been found to reduce the frequency and size of open market repurchases while increasing completion rates (Bonaimé, 2015). In the context of environmental regulations, mandatory greenhouse gas (GHG) reporting leads to improvements in environmental impact, particularly for plants owned by publicly traded firms (Yang et al., 2021) and those situated close to corporate headquarters or related facilities (Doshi et al., 2013).

From a capital market perspective, mandatory ESG disclosures have been shown to negatively impact shareholder wealth (Grewal et al., 2019; Wang et al., 2023). However, the magnitude of this effect differs across regions. In the EU, the reaction is weaker (stronger) for firms with higher (weak) pre-regulation nonfinancial performance and disclosure levels (ESG performance and disclosure) (Grewal et al., 2019). In the US, firms with high carbon emissions suffer more pronounced negative reactions, whereas firms with high ESG scores exhibit a weaker response (Wang et al., 2023). Similarly, the introduction of mandatory CSR spending in India has resulted in a decline in shareholder wealth, as investors perceive such expenditures as a financial burden on firms (Manchiraju & Rajgopal, 2017). Notably, investors tend to prefer voluntary CSR spending over mandated CSR spending, leading to a reduction in CSR spending after the mandate policy (Rajgopal & Tantri, 2023). Additionally, mandatory CSR requirements have been associated with changes in bond markets, with bond yield spreads decreasing for

[4] See Christensen et al. (2021) for an extensive literature summary on non-financial disclosure.

firms affiliated with business groups but increasing for state-owned enterprises (Aswani et al., 2019).[5]

2.2. Climate disclosure

While climate disclosure remains voluntary in many jurisdictions, certain countries, including the United Kingdom, Australia, and the European Union, have implemented mandatory climate disclosure regulations. Voluntary climate disclosure increases firm value due to an increase in transparency related to exposure to climate-related risks (Flammer et al., 2021). Investors, particularly institutional investors, value and demand climate risk disclosures (Ilhan et al., 2023). Furthermore, environmental shareholder activism increases the voluntary disclosure of climate change risks (Flammer et al., 2021).

Mandatory climate disclosure, on the other hand, can lead to a real effect on the overall emission of firms (Christensen et al., 2017; Tomar, 2023). Firms affected by mandatory emission disclosure reduce their emissions relative to unaffected firms without any observable reduction in operating performance (Downar et al., 2021). The effectiveness of mandatory disclosure in reducing GHG emissions is attributed to factors such as the availability of credible data, the pricing of environmental policies, and firms' incentives to mitigate regulatory risks (Greenstone et al., 2023).

Prior literature on mandatory climate reporting consistently highlights its negative impact on shareholder wealth. Evidence from the US (Amiraslani et al., 2024), Malaysia (Pandey et al., 2024), and India (Pandey & Kumari, 2024), among others, indicates that mandates for climate disclosure, on average, lead to a reduction in shareholder wealth. The magnitude of this reaction is stronger for firms with higher proprietary costs, greater exposure

[5] A few recent reviews summarize the impact of mandatory CSR (Christensen et al., 2021; Haji et al., 2023) and ESG disclosure (Tsang et al., 2023).

to litigation risk, and those directly affected by regulatory events (Amiraslani et al., 2024). In India, investors reacted negatively to the Central Bank's draft regulations on climate risk disclosure, particularly for firms operating in polluting industries (Pandey & Kumari, 2024). A similar adverse reaction was observed in Malaysia following the introduction of mandatory climate change reporting on Bursa Malaysia, with variations in response based on firm size and financial performance (Pandey et al., 2024).

Overall, existing research suggests that mandatory climate and emissions disclosure can have significant real-world consequences. While voluntary climate disclosures may enhance shareholder value without compromising operational efficiency, mandatory disclosure often leads to a reduction in shareholder wealth. This indicates that investors perceive mandatory disclosure as a financial burden rather than a value-enhancing mechanism.

2.3. Hypotheses development

The impact of mandatory non-financial disclosure on firms remains a subject of debate. Some studies suggest that such mandates can have a positive impact on shareholders wealth (Bucaro et al., 2020; Naughton et al., 2019), while others document a reduction in shareholder wealth (Grewal et al., 2019; Manchiraju & Rajgopal, 2017; Wang et al., 2023). Given the parallels between climate disclosure and other non-financial reporting requirements, such as CSR and ESG disclosures, there exist two competing views on how the climate disclosure mandate may affect shareholder wealth.

The "stakeholder value maximization" view posits that strategic climate reporting can enhance firm value by increasing transparency and informing stakeholders about potential risks and opportunities. There are three main channels through which firms might experience a positive market reaction to mandatory climate disclosure. First, enhanced transparency and

trust in the firm may improve investor confidence. Second, disclosure of emission information may improve the reputation and attract environment-conscious investors. Third, disclosure of emission information can help in understanding the current standard of the company as well as of the industry, leading to reduced risk perception of the company.

On the other hand, the "shareholder expense" view suggests that regulatory mandates requiring additional activities not related to operating activities increase compliance costs and reduce shareholder wealth. The draft rule may result in negative reactions from investors for a few reasons. First, the costs associated with compliance and reporting may reduce firm profitability, thereby negatively affecting shareholder value. Second, stricter disclosure requirements may expose affected firms to greater regulatory scrutiny and investor activism, increasing the risk of potential penalties for non-compliance. Third, heightened public accountability could subject firms to reputational and legal risks, further amplifying costs.

Given these competing perspectives, it remains unclear whether investors perceive the SEC's draft rule positively or negatively. Prior literature on climate disclosure documents a negative market response toward affected firms on mandatory climate disclosure (Amiraslani et al., 2024; Pandey & Kumari, 2024). Consistent with this evidence, firms affected by the draft rule may experience lower or negative market reactions relative to unaffected firms. We conjecture that firms affected by the draft will experience lower returns relative to the unaffected firms. Thus, our first hypothesis is as follows.

Hypothesis 1: *Firms affected by the draft rule are likely to experience lower returns on the announcement of the draft of the rule relative to unaffected firms.*

The political orientation of a region influences stock market reactions (Bialkowski et al., 2007), with this effect being particularly more relevant in the US concerning climate change beliefs and attitudes (Ziegler, 2017). The two-party political landscape in the US is deeply

polarized on climate change, and this polarization intensified over time (Dunlap & McCright, 2008).). Generally, Republicans (conservatives) are more likely to be skeptical of climate change, whereas Democrats (liberals) acknowledge its reality and associated risks. For instance, conservative white males exhibit a higher climate change denial than other Americans (McCright & Dunlap, 2011).

Investor's political view on climate change is likely to reflect in their investment decisions. Democratic-leaning investors may view climate disclosure mandates favorably and continue to support companies affected by the proposed rule. On the contrary, Republican-leaning investors, who are generally more resistant to climate policies, tend to move their investment from companies subject to the rule. This divergence in investor sentiment is likely to be observable at the state level, as companies headquartered in states with strong Republican dominance may experience stronger negative market reactions due to the prevailing investor sentiment in those regions.

In a state, investors' views can be reflected by their actions in the positive and negative market reactions. However, we only get to observe the direction of reaction, whichever is dominating. Firms headquartered in Republican-dominated states may have historically weaker commitments to climate initiatives, further increasing negative reactions. A state dominated by Republicans is likely to show a stronger negative reaction than the Democratic-dominated state. Thus, we conjecture that companies headquartered in states dominated by Republicans have fewer commitments to climate and will experience a stronger effect on stock price reaction compared to companies with no or weak commitments. Our second hypothesis is

H2: *The lower announcement return is stronger for firms headquartered in states dominated by Republicans.*

Companies operating in high-emission industries, such as oil, gas, and heavy manufacturing, are significant contributors to greenhouse gas emissions and are often perceived as facing greater climate-related risks. Companies affected by the draft rule operating in the polluting industry may experience pronounced negative reactions mainly for three reasons. First, the cost of compliance with climate disclosure regulations is likely to be highest for firms with substantial emissions. Second, the climate disclosure could expose environmental liabilities, underreported emissions, or greenwashing of the company. Third, a stricter climate disclosure framework could prompt divestment from ESG-conscious institutional investors.

However, several counterarguments suggest that polluting firms may not experience as strong a negative reaction as expected. First, the long passage of the rule may have led investors to anticipate and price stricter climate disclosure regulations for polluting industries well before the SEC's announcement. Since these firms are the obvious targets, the announcement does not bring significant new information. Second, large polluting firms often voluntarily disclose climate data due to pressure from environment-conscious investors or past regulatory actions, which could mitigate the market's reaction to the new mandate. Third, polluting industries, particularly oil, gas, and heavy manufacturing, have strong lobbying influence and political connections, which may enable them to influence regulatory outcomes and minimize the impact of stricter climate rules.[6]

Based on the above discussion, it is unclear whether the negative effect of the mandate is stronger or weaker for firms operating in the polluting industry relative to their low-emission counterparts. Although the polluting industry has high emissions, the disclosure of scope 3

[6] Although the US SEC adopted the rule in March 2024, keeping only scope 1 and 2 emissions mandatory, they voluntarily stayed the rule within one month. This withdrawal is due to many backlashes and several court cases in different states of the US. Further, the political pressure in an election year compromised the climate rule (Rajgopal, 2024).

emissions might also disclose emissions along the supply chain, potentially shifting investor scrutiny onto firms in downstream industries. This dynamic could, in some cases, reduce the relative burden on polluting firms. Thus, we hypothesize that companies in high-emitting industries will experience a weaker effect than those in low-emitting industries.

H3: *The lower announcement return is weaker for firms in the polluting industry.*

3. Empirical design and results

3.1. Data and Methodology

We use stock prices and fundamental data from Compustat North America for the sample period 2021-2022. See Table 1 for variable definitions. The proposed draft requires firms with more than USD 75 million market capitalization to report emission-related information. Although firms having market capitalization above the cut-off will be affected by the proposed draft, the effect would be stronger and observable for firms just above the cut-off. Additionally, the market capitalization of firms concentrated around the cutoff is fundamentally similar. The only difference between them is that a group of firms above the cutoff is subject to the rule while others are not. Thus, in our sample, we firms that are concentrated around the cutoff. In particular, we choose firms in the range of -0.5 and 0.5 of variable M, where M is defined as (Market capitalization- 75)/75 following prior studies (Manchiraju & Rajgopal, 2017). Affected firms are those having $M > 0$, while Unaffected firms have $M < 0$. In Panel A of Table 2, we report the descriptive statistics of the overall sample. In panel B of Table 2, we report the mean and median of affected and unaffected firms' fundamentals. In addition, we also report the difference between the mean and median of affected and unaffected firms. Overall, the comparisons of means show that the difference between affected and unaffected firm's fundamentals is statistically insignificant. This suggests that the affected firms subject to the

climate disclosure are comparable to the unaffected firms. Further, we use the 2020 US presidential election to identify states dominated by Republicans and Democrats.

[Insert Table 2 here]

Event study methodology has been widely used in the finance literature to understand the effects of various events on capital market returns in the short term. In particular, prior studies that examine shareholder response to mandatory non-financial disclosure use event study (Grewal et al., 2019; Manchiraju & Rajgopal, 2017; Pandey et al., 2024; Wang et al., 2023). We use the standard event study methodology to examine the capital market response due to the announcement of the draft of climate disclosure (Brown & Warner, 1985). We use the most widely accepted market model to arrive at abnormal returns (AR). Specifically, we compute abnormal return by using the following equation (Eq. 1)

$$AR_{it} = R_{it} - \hat{R}_{it} \quad (1)$$

Where $AR_{it}$is the abnormal return of firm i on day t, R_{it} is the observed daily return of firm i on day t and $\hat{R}_{it}$ is the expected return of firm i on day t, computed as follows (Eq. 2)

$$\hat{R}_{it} = \hat{\alpha}_i + \hat{\beta}_i R_{mt} \quad (2)$$

Where R_{mt} is the market index return for day t. In this case, we use Standard and Poor's (S&P) 500 index return as the proxy of the market benchmark. We compute the expected return of the firm i by regressing firm return on market benchmark (Eq. 2) over 200 trading days ending eleven days prior to the event day (Flammer, 2021; Manchiraju & Rajgopal, 2017).

We compute the cumulative abnormal return of firm I for the event window ranging between day T_1 and day T_2 by summing the AR_i across the days T_1 and T_2. Specifically, we use the following equation (Eq. 3)

$$CAR_i(T_1, T_2) = \sum_{T_1}^{T_2} AR_{it} \quad (3)$$

In our main results, we use the seven-day event window (-3, +3) centered on the event date. We incorporate the possibility of information leakage before the announcement of the proposed draft of the climate disclosure rule. We also use the three-day and five-day event window centered at the event day for robustness checks.

3.2. Univariate results

In Table 3, we report the CAR of Affected and unaffected firms around the announcement of the proposed draft of the climate disclosure. In Panel A of Table 3, we show the mean CAR of Affected and Unaffected firms and the difference between the mean. While the CAR is significantly positive for Affected and Unaffected firms, on average, there is heterogeneity in the magnitude of the CAR. Additionally, the test of difference between the CAR of Affected and Unaffected firms is statistically significant. In Panel B of Table 3, we report the median CAR of Affected and Unaffected firms and the difference in median of both groups. While both affected and unaffected firms experienced a positive reaction, it was weaker for the Affected firms. This is in line with the findings of Amiraslani et al. (2024), where they show that, on average, firms experienced a positive market reaction to the SEC's proposed climate disclosure rule.

[Insert Table 3 here]

In Figure 1, we plot the CAR of Affected and Unaffected firms due to the proposed climate disclosure rule. It illustrates the overall positive reaction for both Affected and Unaffected firms around the announcement of the proposed draft rule. A closer look at the graph suggests that while the CAR increased for both groups, Affected firms experienced a lower return relative to Unaffected firms.

[Insert Figure 1 here]

Overall, the results suggest that firms subject to the proposed rule experienced lower market reaction as compared to the firms not affected by the rule. This is in line with our first conjecture that firms subject to the proposed climate rule experienced a lower return relative to those who were not.

3.3. Multivariate results on affected firms

To further validate and strengthen the findings from the univariate analysis, we conduct multivariate regression analysis to account for potential confounding factors and ensure robustness. Although the univariate results confirm our first hypothesis on the weaker reaction for firms affected by the SEC's proposed draft on the climate disclosure rule, multivariate analysis allows us to control for firm-specific and industry-level characteristics that may influence stock price movements. Specifically, we use the following regression model (Eq. 4).

$$CAR_i = \alpha + \beta Affected_i + Controls_i + \varepsilon_i \quad (4)$$

Where CAR_i, the dependent variable, is the cumulative abnormal return of the firm i and $Affected$ is an indicator variable that takes one for Affected firms otherwise zero. We also use firm-specific control variables in our regression models, such as Q, Leverage, Sale growth, Capital expenditure, Cash, Size, ROA, and BM.

In Table 4, we report the main results of our study. While Model (1) includes only our variable of interest, Models (2) and (3) include the firm-specific control variables. Model (3) additionally includes industry-fixed effects to avoid heterogeneity arising from the industry (two-digit SIC) where the firm operates. In all our models, we find a negative and significant coefficient for Affected, suggesting a relatively low reaction for firms affected by the proposed rule. In particular, in Model (3), we observe a coefficient of -0.035, which in economics terms suggests that Affected firms, on average, experience 3.5 basis points lower returns relative to

Unaffected firms. Overall, we observe that firms affected by the proposed rule experience lower returns relative to unaffected firms, which further confirms our first hypothesis.

[Insert Table 5 here]

3.4. Multivariate results on the role of political regime

To examine how political orientation shapes the stock market reaction towards firms affected by the rule, we introduce an indicator variable, Republicans, that takes one if the state is dominated by Republicans. We also include an interaction term between Affected and Republicans. We expect a negative and significant coefficient for the interaction term to align with our second hypothesis. In particular, we use the following equation (Eq. 5)

$$CAR_i = \alpha + \beta Affected + \delta\, Republicans + \gamma Affected \times Republicans + Controls_i + \varepsilon_i \quad (5)$$

We report the results in Table 5. We observe a negative and significant coefficient in the interaction term $Affected \times Republicans$. This reveals that the negative effect is stronger for firms in Republican states. Specifically, we find a -0.042 coefficient for the interaction term. This suggests that economically, firms that are situated in Republican-dominated states, on average, faced a 4.2 bps negative response relative to firms not subject to the rule and supports our Hypothesis 2.

[Insert Table 5 here]

3.5. Multivariate results on the role of industry

We test whether affected firms in the polluting industry experience weaker or stronger reactions with the following equation (Eq. 6)

$$CAR_i = \alpha + \beta Affected_i + \delta\, Polluting + \gamma Affected_i \times Polluting + Controls_i + \varepsilon_i \quad (6)$$

Where $Polluting$ is a dummy variable that takes one if the firm is operating in the polluting industry. To align with our third hypothesis, we expect a positive coefficient to the interaction term.

We report the results in Table 6. We observe a positive and significant coefficient for the interaction term $Affected \times Polluting$, which suggests a weaker negative effect for Affected firms in the polluting industry. Economically, the coefficient of 0.114 suggests that Affected firms in the polluting industry, on average, experienced 11 bps higher return than others. This confirms our third hypothesis that Affected firms in the polluting industry, on average, experience weaker negative returns.

[Insert Table 6 here]

3.6. Robustness checks

To ensure the robustness of our findings, we conduct a series of sensitivity tests. First, we examine whether our main results hold across two different event windows. Specifically, we consider three-day (-1, +1) and five-day (-2, +2) event windows centered around the event day to capture short-term market reactions to account for potential information leakage or delayed investor responses. Table 7 presents the multivariate analysis for various event windows, and we find that the results remain qualitatively consistent, reinforcing the validity of our initial findings.

[Insert Table 7 here]

Second, to mitigate potential biases arising from outliers in the CAR of the firms around the event day, we winsorized the CAR at the 1% and 99% levels. The results reported in Table 8 indicate that our baseline results remain unchanged even after accounting for extreme values, suggesting that outliers do not drive our findings.

[Insert Table 8 here]

Finally, we perform a placebo test to address potential endogeneity concerns related to stock price co-movements. Specifically, we re-estimate our main analysis using a pseudo-event date set 30 days prior to the actual announcement date. The results, presented in Table 9, reveal no statistically significant coefficient for our main variable of interest, confirming that the observed market reaction is attributable to the announcement of the climate disclosure rule rather than unrelated stock price fluctuations. This falsification test further strengthens the credibility of our findings.

[Insert Table 9 here]

4. Conclusion

In this study, we examine the effect of the highly controversial draft climate disclosure rule by the US SEC on firms affected by the rule. We find that firms that are subject to the rule experience return lower relative to firms that are not subject to the rule, suggesting the shareholder expense view for the affected firms due to the cost of compliance and public accountability. Additionally, we find that this effect is stronger for firms established in the Republican-dominated state, reflecting the impact of political orientation on investment decisions. We also document that this effect is weaker for firms operating in the polluting industry, indicating the role of industry in shaping the perception. The results remain consistent after a battery of robustness tests.

The study has several implications for investors, policymakers, and corporate managers. The study provides insights into how financial markets perceive mandatory climate disclosure considering the costs and liabilities. Policymakers can understand the investor reaction to a mandate intended for transparency in accountability and environmental responsibility and

consider phased implementation to reduce disruptions. Additionally, managers may decide on voluntary disclosure of climate risks to enhance shareholder wealth.

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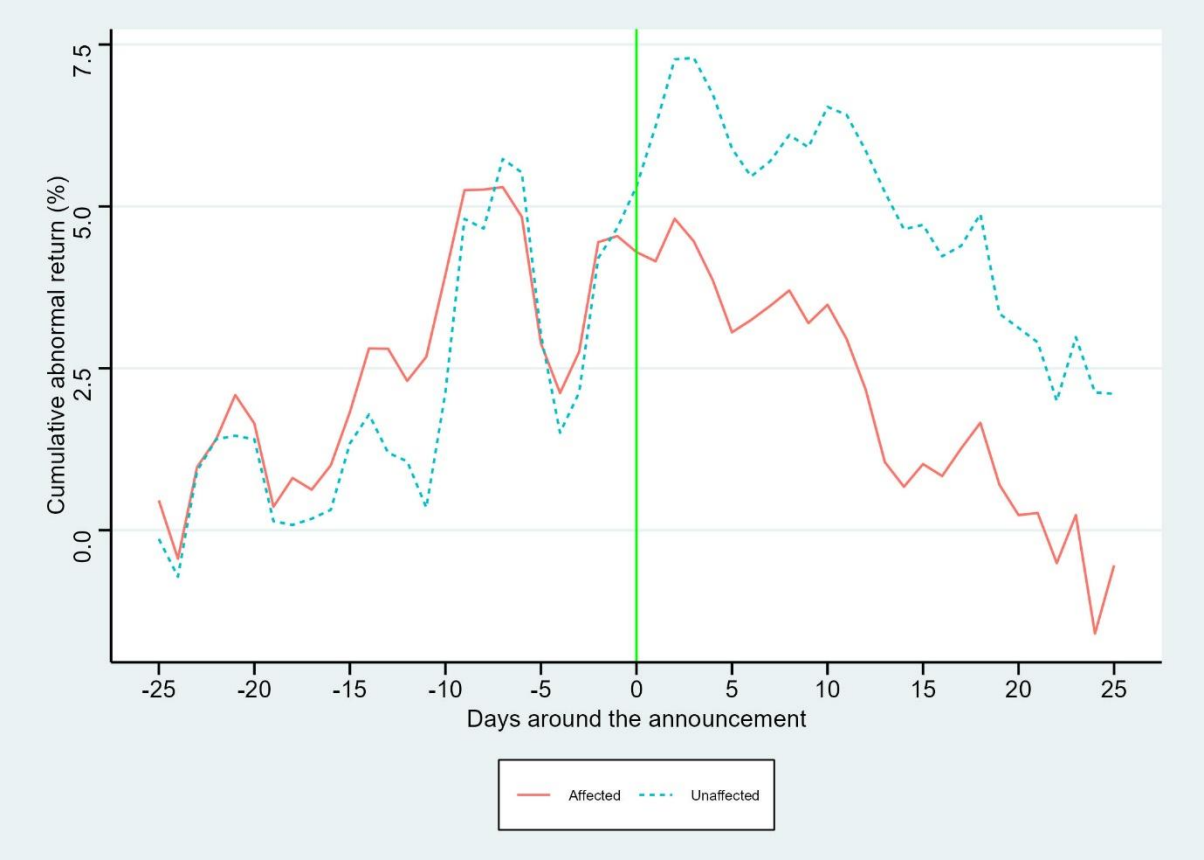

Figure 1: CAR around the SEC climate disclosure draft announcement

This figure illustrates the market reaction, measured by cumulative abnormal returns (CAR), for firms affected and unaffected by the SEC's proposed climate disclosure rule. The sample consists of firms near the regulatory cutoff, with market capitalization (M) ranging between -0.5 and 0.5. The variable M is defined as *(Market Capitalization – 75)/75*, where firms with $M > 0$ are classified as "Affected," and firms with $M < 0$ are classified as "Unaffected."

Table 1: Variable definition

Variable	Definition	Computation
CAR	cumulative abnormal returns, where I measure abnormal returns by estimating the market model using 200 trading days of return data ending 11 days before the event. The return on S&P 500 is used as a proxy for the market return. Daily abnormal stock returns are cumulated to obtain the CAR from day t – 3 before the legislative event date to day t + 3 after the event date	
Affected	indicator variable that equals one if the firm's binding score rating variable M > 0. The variable M is defined (Mcap – 75)/75, which determines whether a firm is affected by the mandatory climate disclosure rule. Market capitalization (Mcap) is for the last month before the event date. The USD 75 million Mcap is the cutoff for Accelerated filers. If a firm has Mcap above this cutoff, the firm is then required to file climate disclosure.	
Unaffected	Indicator variable that equals one if the firm's M < 0.	
Q	(book value of total assets + market value of equity –common book equity)/ total assets	(at+csho*prccd - ceq)/at
SIZE	natural log of the total assets	ln(at)
BM	ratio of book value of equity to the market value of equity at the end of the year	ceq/market value
LEV	long-term debt (including its current portion) divided by total assets at the end of the year	dltt/at
SGROWTH	sales growth is defined as $(sales_t – sales_{t-1})/sales_{t-1}$	sale
ROA	income from continuing operations divided by the total assets at the end of the year	Oibdp/at
CAPEX	capital expenditure during the year/total assets at the end of the year	capx/at
CASH	cash and marketable securities at the end of year/total assets at the end of the year	ch/at
Polluting	Indicator variable that equals one if the firm is in the manufacturing or energy sector as per the Fama-French 12 industry classification	
Republicans	Indicator variable that equals one if the firm is headquartered in a state dominated by Republicans.	

Table 2: Descriptive statistics

This table reports the descriptive statistics of sample firms. The sample consists of firms near the regulatory cutoff, with market capitalization (M) ranging between -0.5 and 0.5. The variable M is defined as *(Market Capitalization – 75)/75*, where firms with $M > 0$ are classified as "Affected," and firms with $M < 0$ are classified as "Unaffected." While Panel A presents the descriptive statistics of the full sample, Panel B presents the descriptive statistics of Affected and Unaffected firms by the climate rule. A two-sample t-test (Wilcoxon-Mann-Whitney rank sum test) was used to determine whether the difference in means (medians) of a variable between the Affected firms and Unaffected firms is significantly different from zero. See Table 1 for variable definitions. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. 'NS' indicates not significant.

Panel A: Descriptive statistics for the overall sample

Variable	N	Mean	SD	Min	Q1	Median	Q3	Max
Q	477	14.63	232.29	0.22	0.99	1.18	2.02	5040.09
LEV	477	0.15	0.23	0.00	0.01	0.05	0.20	2.11
SGROWTH	477	4.78	62.55	-2.60	-0.02	0.11	0.38	1243.00
CAPEX	477	0.02	0.06	0.00	0.00	0.01	0.02	0.93
CASH	477	0.25	0.27	0.00	0.02	0.13	0.39	0.97
SIZE	477	4.74	1.50	-3.61	3.90	4.61	5.84	7.95
ROA	477	-2.50	50.36	-1099.96	-0.18	0.01	0.03	0.47
BM	477	1094.46	12743.91	-1335.10	1.01	10.62	158.09	240139.32

Panel B: Descriptive statistics for affected and unaffected firms

	Affected firms (A)			Unaffected firms (B)			Test of difference (B-A)	
Variable	N	Mean	Median	N	Mean	Median	t-test (p-value)	Wilcoxon z test (p-value)
Q	204	31.01	1.17	273	2.39	1.19	NS	NS
LEV	204	0.16	0.05	273	0.14	0.05	NS	NS
SGROWTH	204	9.60	0.09	273	1.17	0.12	NS	NS
CAPEX	204	0.02	0.00	273	0.02	0.01	NS	*
CASH	204	0.21	0.09	273	0.27	0.17	**	***
SIZE	204	5.04	5.06	273	4.51	4.37	***	***
ROA	204	-5.62	0.02	273	-0.17	-0.01	NS	*
BM	204	2215.87	18.59	273	256.48	7.13	NS	***

Table 3: CAR around the announcement

This table reports the mean and median CAR around the announcement of the proposed climate rule. The sample consists of firms near the regulatory cutoff, with market capitalization (M) ranging between -0.5 and 0.5. The variable M is defined as *(Market Capitalization – 75)/75*, where firms with $M > 0$ are classified as "Affected," and firms with $M < 0$ are classified as "Unaffected." We use the standard market model to arrive at abnormal returns using 200 trading days of return data ending 11 days before the event and the S&P 500 index as the market benchmark. Panel A (B) presents the mean (median) CAR of the Affected and Unaffected firms and the test of difference. A two-sample t-test (Wilcoxon-Mann-Whitney rank sum test) was used to determine whether the difference in means (medians) CARs between the Affected firms and Unaffected firms is significantly different from zero. See Table 1 for variable definitions. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Mean CAR around the announcement

	Unaffected firms (A)			Affected firms (B)			Test of difference (B-A)
Window	N	CAR	p-value	N	CAR	p-value	p-value
(-3, 3)	273	5.79***	0.000	204	2.34***	0.004	0.001***
(-2, 2)	273	5.14***	0.000	204	2.05***	0.002	0.000***
(-1, 1)	273	2.03***	0.000	204	-0.29	0.568	0.000***

Panel B: Median CAR around the announcement

	Unaffected firms (A)			Affected firms (B)			Test of difference (B-A)
Window	N	CAR	p-value	N	CAR	p-value	p-value
(-3, 3)	273	2.96***	0.000	204	1.10***	0.001	0.001***
(-2, 2)	273	2.46***	0.000	204	1.23***	0.000	0.001***
(-1, 1)	273	0.29***	0.001	204	-0.02	0.823	0.004***

Table 4: Market reaction to affected firms

This table reports multivariate results. The dependent variable is the seven-day CAR of firms centered around the event day. The sample consists of firms near the regulatory cutoff, with market capitalization (M) ranging between -0.5 and 0.5. The variable M is defined as *(Market Capitalization – 75)/75*, where firms with $M > 0$ are classified as "Affected," and firms with $M < 0$ are classified as "Unaffected." We use the standard market model to arrive at abnormal returns using 200 trading days of return data ending 11 days before the event and the S&P 500 index as the market benchmark. Industry fixed effects are based on the firm's two-digit SIC codes. See Table 1 for variable definitions. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. p-values have been reported in parentheses.

	(1) CAR (-3, 3)	(2) CAR (-3, 3)	(3) CAR (-3, 3)
Affected	-0.034***	-0.027**	-0.035***
	(0.011)	(0.011)	(0.012)
Q		-0.001***	-0.001***
		(0.000)	(0.000)
LEV		-0.025	-0.074**
		(0.025)	(0.032)
SGROWTH		-0.000	-0.000
		(0.000)	(0.000)
CAPEX		0.368***	0.385**
		(0.135)	(0.151)
CASH		0.070***	0.039
		(0.024)	(0.028)
SIZE		0.004	0.017**
		(0.005)	(0.006)
BM		-0.000	-0.000
		(0.000)	(0.000)
ROA		-0.005***	-0.003***
		(0.001)	(0.001)
Constant	0.058***	0.019	0.122
	(0.007)	(0.027)	(0.123)
Industry FE	No	No	Yes
R-Squared	0.019	0.086	0.190
N	477	477	477

Table 5: Companies in republic state

This table reports multivariate results. The dependent variable is the seven-day CAR of firms centered around the event day. The sample consists of firms near the regulatory cutoff, with market capitalization (M) ranging between -0.5 and 0.5. The variable M is defined as *(Market Capitalization – 75)/75*, where firms with $M > 0$ are classified as "Affected," and firms with $M < 0$ are classified as "Unaffected." We use the standard market model to arrive at abnormal returns using 200 trading days of return data ending 11 days before the event and the S&P 500 index as the market benchmark. Republicans is an indicator variable that equals one if the firm is headquartered in a state dominated by Republicans. Industry fixed effects are based on the firm's two-digit SIC codes. See Table 1 for variable definitions. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. p-values have been reported in parentheses.

	(1) CAR (-3, 3)	(2) CAR (-3, 3)	(3) CAR (-3, 3)
Affected	-0.021	-0.018	-0.023
	(0.014)	(0.014)	(0.014)
Republicans	0.009	-0.008	-0.000
	(0.017)	(0.015)	(0.016)
Affected × Republicans	-0.047*	-0.035	-0.042*
	(0.026)	(0.024)	(0.025)
Constant	0.187	0.020	0.109
	(0.123)	(0.027)	(0.123)
Controls	No	Yes	Yes
Industry FE	Yes	No	Yes
R-Squared	0.135	0.097	0.199
N	477	477	477

Table 6: Companies in Polluting industry state

This table reports multivariate results. The dependent variable is the seven-day CAR of firms centered around the event day. The sample consists of firms near the regulatory cutoff, with market capitalization (M) ranging between -0.5 and 0.5. The variable M is defined as *(Market Capitalization – 75)/75*, where firms with $M > 0$ are classified as "Affected," and firms with $M < 0$ are classified as "Unaffected." We use the standard market model to arrive at abnormal returns using 200 trading days of return data ending 11 days before the event and the S&P 500 index as the market benchmark. Polluting is an indicator variable that equals one if the firm is in the manufacturing or energy sector as per the Fama-French 12 industry classification. Industry fixed effects are based on the firm's two-digit SIC codes. See Table 1 for variable definitions. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. p-values have been reported in parentheses.

	(1) CAR (-3, 3)	(2) CAR (-3, 3)	(3) CAR (-3, 3)
Affected	-0.043***	-0.038***	-0.046***
	(0.012)	(0.012)	(0.013)
Polluting	-0.086**	-0.060***	-0.085**
	(0.042)	(0.023)	(0.041)
Affected× Polluting	0.092**	0.103***	0.114***
	(0.042)	(0.038)	(0.041)
Constant	0.209*	0.028	0.131
	(0.122)	(0.027)	(0.122)
Controls	No	Yes	Yes
Industry FE	Yes	No	Yes
R-Squared	0.141	0.103	0.207
N	477	477	477

Table 7 Robustness: Different Event windows

This table reports multivariate results for two different event windows. The dependent variable is the three-day and five-day CAR of firms centered around the event day. The sample consists of firms near the regulatory cutoff, with market capitalization (M) ranging between -0.5 and 0.5. The variable M is defined as *(Market Capitalization – 75)/75*, where firms with $M > 0$ are classified as "Affected," and firms with $M < 0$ are classified as "Unaffected." We use the standard market model to arrive at abnormal returns using 200 trading days of return data ending 11 days before the event and the S&P 500 index as the market benchmark. Industry fixed effects are based on the firm's two-digit SIC codes. See Table 1 for variable definitions. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. p-values have been reported in parentheses.

	(1) CAR (-1, 1)	(2) CAR (-1, 1)	(3) CAR (-2, 2)	(4) CAR (-2, 2)
Affected	-0.017**	-0.017**	-0.025***	-0.031***
	(0.007)	(0.008)	(0.009)	(0.010)
Constant	0.030*	0.054	0.001	0.158
	(0.017)	(0.078)	(0.022)	(0.099)
Controls	Yes	Yes	Yes	Yes
Industry FE	No	Yes	No	Yes
R-Squared	0.095	0.217	0.132	0.221
N	477.000	477.000	477.000	477.000

Table 8 Robustness: Different Event windows with winsorization

This table reports multivariate results for three different event windows. The dependent variable is the three-, five-, and seven-day CAR of firms winsorized at 1% and 99%, centered around the event day. The sample consists of firms near the regulatory cutoff, with market capitalization (M) ranging between -0.5 and 0.5. The variable M is defined as *(Market Capitalization – 75)/75*, where firms with $M > 0$ are classified as "Affected," and firms with $M < 0$ are classified as "Unaffected." We use the standard market model to arrive at abnormal returns using 200 trading days of return data ending 11 days before the event and the S&P 500 index as the market benchmark. Industry fixed effects are based on the firm's two-digit SIC codes. See Table 1 for variable definitions. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. p-values have been reported in parentheses.

	(1)	(2)	(3)	(4)	(5)	(6)
	CAR (-1, 1)		CAR (-2, 2)		CAR (-3, 3)	
Affected	-0.012**	-0.013**	-0.019**	-0.024***	-0.022**	-0.030***
	(0.006)	(0.006)	(0.008)	(0.008)	(0.010)	(0.010)
Constant	0.013	0.047	0.013	0.171**	0.026	0.133
	(0.014)	(0.064)	(0.019)	(0.085)	(0.024)	(0.107)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	No	Yes	No	Yes	No	Yes
R-Squared	0.057	0.142	0.109	0.213	0.074	0.194
N	477.000	477.000	477.000	477.000	477.000	477.000

Table 9 Robustness: Placebo test

This table reports multivariate results for the pseudo-event date thirty days prior to the actual event date for three different event windows. The dependent variable is the three-, five-, and seven-day CAR of firms winsorized at 1% and 99%, centered around the event day. The sample consists of firms near the regulatory cutoff, with market capitalization (M) ranging between -0.5 and 0.5. The variable M is defined as *(Market Capitalization – 75)/75*, where firms with $M > 0$ are classified as "Affected," and firms with $M < 0$ are classified as "Unaffected." We use the standard market model to arrive at abnormal returns using 200 trading days of return data ending 11 days before the event and the S&P 500 index as the market benchmark. Industry fixed effects are based on the firm's two-digit SIC codes. See Table 1 for variable definitions. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. p-values have been reported in parentheses.

	(1)	(2)	(3)	(4)	(5)	(6)
	CAR (-1, 1)		CAR (-2, 2)		CAR (-3, 3)	
Affected	0.001	0.001	-0.002	-0.001	-0.004	-0.007
	(0.007)	(0.008)	(0.009)	(0.010)	(0.012)	(0.012)
Constant	0.046**	0.072	0.028	0.202**	0.046	0.171
	(0.018)	(0.076)	(0.023)	(0.099)	(0.029)	(0.121)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	No	Yes	No	Yes	No	Yes
R-Squared	0.100	0.239	0.118	0.218	0.091	0.208
N	438.000	438.000	438.000	438.000	438.000	438.000