

Summary of <The Irrelevance of Environmental, Social, and Governance Disclosure to Retail Investors>

Zeli Chen

May 4, 2024

1. What are the research questions?

- How retail investors adjust their portfolio holdings in response to firms' environmental, social, and governance (ESG) disclosures?

2. Why are the research questions interesting?

- **Recent studies:** suggest that ESG disclosures attract investors who have a “taste” for these types of activities.
- **Limitations:** the evidence on retail investors trading individual company stocks is limited to experimental studies.

3. What is the paper's contribution?

- Contribute to the literature that examines how ESG disclosures affect the composition of firms' shareholder base.
 - **Prior studies** focus on ESG disclosure attract ESG-taste, dedicated institutional investors, and mutual fund.(Dhaliwal et al., 2011)
 - **This study** suggests that retail investors do not adjust their holdings of individual firm securities in response to firm-initiated ESG disclosures.
- Contribute to the literature that examines how investors respond to firms' ESG disclosures.
 - **Existing studies** use experimental methods.
 - **This study** narrows the unit of analysis to retail investors
- Contribute to the development of ESG disclosures by various regulatory entities, including the U.S. SEC.
 - **Prior feedbacks** have come from institutional investors.
 - **This paper** suggests that retail investors may have different informational needs.

4. What hypotheses are tested in the paper?

- **Hypothesis1** ESG press releases do not contain economically meaningful information so retail investors are unable to process and integrate them into their investment decisions.
 - **Hypothesis2** ESG press releases are disseminated so narrowly that investors are unaware of them.
- a) These hypotheses answer the research question.
b) These hypotheses follow from common sense, and previous studies.

5. Sample

- There are likely to be differences between Robinhood investors and the general population of retail investors.

6. Dependent and independent variables

- Measure the use of ESG information by retail investors at the time the press releases are disseminated.
- Do not investigate whether retail investors focus on long-term, historical measures of ESG performance in making portfolio adjustments.

7. Regression/prediction model specification

- Using OLS with fixed effect while controls some retail investors' variables, which is specific.

8. What difficulties arise in drawing inferences from the empirical work?

- The aspects of the Robinhood interface and differences in investing philosophy would bias the representativeness of the retail investors.

9. Describe at least one publishable and feasible extension of this research.

- MD&A and retail investors' response.
- IPOs and retail investors' response.