

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

Austin Moss, James P. Naughton, Clare Wang (MS, 2021)

Summarized by Li Ziming

1. What are the research questions?

- Whether retail investors respond to ESG press releases and why retail investors do not respond to ESG disclosures.

2. Why are the research questions interesting?

- The empirical research on retail investors' response to ESG disclosures is insufficient. Prior studies are limited to experimental studies. There is a problem on external validity.
- Robinhood Markets provides unique research data to research this question. It publishes the number of Robinhood investors who own each security in real time.

3. What is the paper's contribution?

- Contribute to the literature that examines how ESG disclosures affect the composition of firms' shareholder base.
 - Prior literature: ESG disclosures attract investors who have a taste for ESG activities (Friedman and Heinle, 2016) and dedicated institutional investors (Dhaliwal et al., 2011).
 - Extend: This paper suggests that retail investors do not adjust their holdings of securities in response to ESG disclosures.
- Contribute to the literature that examines how investors respond to ESG disclosures.
 - Prior literature: Use the laboratory experiment approach, find the subjects transact based on ESG disclosures (Cheng et al., 2015; Martin and Moser, 2016).
 - Extend: This paper uses an empirical archival approach and narrows the unit of analysis to retail investors.
- Contribute to the ongoing development of ESG disclosures by various regulatory entities.
 - Generally, the discussion of ESG disclosure proposals assumed that investors are homogeneous.
 - Extend: This paper suggests that retail investors have different informational needs towards ESG disclosures.

4. What hypotheses are tested in the paper?

- H1: Retail investors adjust their portfolio holdings in response to ESG disclosures.
- H2: The absence of retail investors' response is attributed to a lack of economic content, a lack of visibility, or integration difficulties.

a) Do these hypotheses follow from and answer the research questions?

- Yes.

b) Do these hypotheses follow from theory? Explain logic of the hypotheses.

- The development of these hypotheses is motivated by prior studies which use experiment approach (Cheng et al., 2015; Martin and Moser, 2016).
- The possible explanations for a lack of retail investor response are introduced by Blankespoor et al. (2019) for how investors might process a disclosure in trading decisions.

5. Sample: comment on the appropriateness of the sample selection procedures.

- The reduction in the sample of press releases leads to a question on whether CSRWire is a complete source because thousands of listed companies do not issue press releases on this platform. This may cause an endogeneity problem of self-selection.

6. Comment on the appropriateness of variable definition and measurement.

- Retail investors' portfolio holdings is described by the change in number of retail investors holding stocks, but the positions of individual investors change is not reflected.
- The paper does not clearly describe how to distinguish between ESG-related press release and not-ESG-related press release.

7. Comment on the appropriateness of the regress/predict model specification.

- The study controls for lagged returns and includes firm and date fixed effects to fully absorb time-invariant cross-firm heterogeneity and time trends.

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

- The examination of three explanations for a lack of retail investor response is based on the sample limited to a subset of the first analysis.

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

- In the future studies, we can investigate the overall demand for ESG disclosures and consider other ways in which different investor classes process this type of information.
- Research the reason why retail investors do not respond to ESG disclosures. One explanation is that ESG investment concepts have not been taken seriously by retail investors.