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

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1 Research questions

Does the firms' ESG disclosure affect retail investors portfolio decisions, and why?

2 Why are the research questions interesting?

• Prior studies showed that firms' ESG disclosures attract investors with different preferences.
  - These 'tastes' matter due to effects on the firms' cost of capital and future operational decisions.

• Need a method using empirical archival approach to test if it standards for retail investors.
  - There is empirical evidence supporting conjecture for mutual fund flows.
  - The evidence on retail investors trading company stocks is limited to experimental studies.

• Robinhood provides real-time data that update every hour for free downloading.

3 What is the paper's contribution?

***(1)* Literature examining how ESG disclosures affect the firms' shareholder base**

Previous literature: Dedicated institutional investors are attracted by firms that initiate ESG discloses.

This paper: Retail investors don't adjust holdings of securities based on firm-initiated ESG disclosures.

***(2)* Literature examining how investors respond to firms' ESG disclosures**

Previous literature: Investors in lab-experiments are found to transact based on ESG disclosure.

This paper: Retail investors' real world portfolio choices are not affected by disclosures. (Narrowing the unit of analysis to retail investors.)

***(3)* Contribute to the ongoing development of ESG disclosures by various regulatory entities**

Previous literature: Discussion of ESG disclosure proposals assumes investors are homogeneous, and much of feedback comes from institutional investors.

This paper: Retail investors do not incorporate existing disclosure as institutional investors did.

4 What hypotheses are tested in the paper?

H1: ESG press release has no impact on the portfolio holdings of retail investors.

H2: Economic content, Visibility, or Integration affects investors' response to ESG press releases.

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

• Yes, these hypothesis provide assistance in answering research questions.

b) Do these hypotheses follow from theory or are they otherwise adequately developed?

• The results of the paper provide consistent evidence that ESG press releases are not associated with retail investor portfolio re-allocations.

• Retail investors do not incorporate information from ESG press releases into investment decisions even when it is economically important, highly visible, and easy to evaluate.

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

The stock price disclosure information, and key statistical data on the Robinhood web-page are comprehensive. The stock price disclosure can be accurate to the five minute update interval of every hour.

6 Dependent and independent variables: comment on the appropriateness.

The independent variables are mainly about ESG PR day, non-ESG PR day. These variables contain a wide range of insights into the portfolio holdings of retail investors.

7 Regression model specification: comment on the appropriateness.

The multi-factor linear specification is not only easy to infer the impact of ESG disclosure on retail investors' response, also changing the dependent variable to explore why investors are indifferent to ESG disclosure.

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

- The return rate data for *Q4, Q2, Q3*, and *Q1* in the economic content section is not provided in a table.
- Control for visibility or integration variables when discussing the impact of economic content?

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

Investigate the overall demand for ESG disclosure and consider alternative ways for different investor categories to handle such information.

References

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[2] Cheng M, Green W, Ko J (2015) The impact of strategic relevance and assurance of sustainability indicators on investors' decisions. Auditing 34(1):131–162.