Seminar Topic: Value Relevance of Carbon Emissions and Disclosures: The Role of Materiality

Abstract:
Climate risk is increasingly recognized as a financial risk to investors. However, investor ability to assess financial exposure to climate risk depends on firm disclosures. The perceived weak regulatory enforcement of mandatory disclosures has left investors relying on voluntary disclosures. Existing studies are inconclusive as to whether voluntary disclosure of climate risk is associated with firm valuation. Using the SASB materiality standards, I examine S&P 500 firms that voluntarily disclose climate risk to the CDP and find that investors differentially value carbon emissions conditional on whether it is financially material to firm performance, and that managers in turn respond rationally in their disclosure choice. This study is particularly relevant to the SEC and contributes to the growing conversation on the direction of climate risk regulation in the U.S.