

# Institutional Investors' Views and Preferences on Climate Risk Disclosure

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Disclosure

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## Abstract

We survey institutional investors on firms' climate risk disclosures. Many investors believe climate risk reporting to be as important as traditional financial reporting and that it should be mandatory and more standardized. However, they also view current quantitative and qualitative disclosure on climate risks as being insufficient and imprecise. The belief that current climate related disclosure is deficient derives more from investors that believe climate risks are underpriced in equity markets. We complement the survey analysis with archival data showing that greater institutional ownership is associated with a higher propensity of firms to voluntarily disclose their carbon emissions.

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Climate Risk Disclosure



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We survey institutional investors on firms' climate risk disclosures. Many investors believe climate risk reporting to be as important as traditional financial reporting and that it should be mandatory and more standardized. However, they also view current quantitative and qualitative disclosure on climate risks as being insufficient and imprecise. The belief that current climate-related disclosure is deficient derives more from investors that believe climate risks are underpriced in equity markets. We complement the survey analysis with archival data showing that greater institutional ownership is associated with a higher propensity of firms to voluntarily disclose their carbon emissions.

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## 1. Introduction

Financial market efficiency relies on timely and accurate information regarding firms' risk exposures. An increasingly important risk exposure relates to climate change, which can originate from natural disasters, government regulation to combat a rise in temperature, or climate-related innovations that disrupt existing business models (Litterman 2016, Krueger, Sautner, and Starks 2019). Consequently, high-quality information on firms' climate risk exposures has become a significant component of informed investment decisions and of correct market pricing of the risks and opportunities related to climate change. Furthermore, with climate change being increasingly considered as a danger to the financial system (Carney 2015), sound disclosure on climate risks is also essential for regulatory efforts to protect financial stability (Goldstein and Yang 2017).

However, many regulators and investors argue that climate risk disclosure is currently insufficient. For example, Mark Carney, Governor of the Bank of England, called for more to be done *“to develop consistent, comparable, reliable and clear disclosure around the carbon intensity of different assets”* (Carney 2015). In a similar spirit, Anne Stausboll, former CEO of CalPERS, argued that *“consistent and comparable corporate disclosure of material climate issues is critical [and that] investors require better climate disclosure”* (Stausboll 2014). More recently, Yngve Slyngstad, CEO of Norges Bank Investment Management, echoed these concerns by commenting on the difficulty of obtaining climate risk-related data: *“The only surprise [...] is how hard it is to get the data [...] I think it will take years to get good data from the majority of companies we are invested in.”*<sup>1</sup>

To address potential shortcomings in current disclosures, regulators, governments, and NGOs have been taking actions to improve firm-level reporting on climate risks. For instance, in 2015, the Financial Stability Board initiated the Task Force on Climate-related Financial Disclosures (TCFD), with the objective of developing voluntary climate-related financial risk disclosures. In a similar spirit, on

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<sup>1</sup> See “Norway wealth fund builds tool to analyze climate risk to portfolio,” *Reuters Market News*, October 31, 2018.

behalf of investors representing over \$87 trillion in assets under management, the CDP collects climate-related information through a questionnaire. In addition to these largely voluntary initiatives, some countries are mandating climate-related disclosures. For example, since 2013, the U.K. requires exchange-traded companies to disclose their carbon emissions (see Krueger 2015; Jouvenot and Krueger 2019), and since 2016, France requires institutional investors to report the carbon footprints of their investment portfolios.<sup>2</sup>

While these initiatives suggest that investors increasingly require climate-related information for their decision making, little systematic evidence exists on how institutional investors think about such disclosures. In this paper, we directly survey institutional investors about their views and preferences with respect to climate-related disclosures. Surveys are increasingly used in the finance literature, enabling better understandings of such topics as corporate financing (Graham and Harvey 2001), investor activism (McCahery, Sautner, and Starks 2016), investor relations (Karolyi and Liao 2017), climate risk (Krueger, Sautner, and Starks 2019), and ESG investing (Amel-Zadeh and Serafeim 2018). The surveys are most valuable in addressing questions that are theoretically ambiguous and that are difficult or impossible to research through archival methods. Since reporting on nonfinancial information can have benefits and costs (Christensen, Hail, and Leuz 2019), whether investors attribute value to climate risk disclosure by firms is both theoretically ambiguous and not directly observable. For example, while such reporting may increase stock liquidity, reduce a firm's costs of capital, and make the pricing of risks more efficient, it may also allow competitors to infer proprietary information about a firm's future strategy (e.g., if future CO<sub>2</sub> emission targets are disclosed). Thus, a survey allows us to understand better whether and how investors value climate risk disclosure.

Moreover, since we are able to link the survey responses to data on investor characteristics which we also collect by means of the survey, we can provide more insights into the relationship

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<sup>2</sup> Recently, the *Climate Risk Disclosure Act of 2018* was introduced in the U.S. Senate, with the objective to introduce mandatory climate disclosure. If accepted, the bill would require firms to disclose greenhouse-gas emissions, risk-management strategies to address climate change, and discussion about how climate change affects valuations in different climate scenarios.

between the investors' characteristics and their perspectives and actions. Our respondent group consists of important decision makers at some of the world's largest investors. About one-third of the respondents works at the executive level in their institutions, 11% of all respondents work for institutions with more than \$100bn in assets under management, and 57% for institutions with more than \$20bn in assets under management.

Our analysis of the survey responses consists of three parts. We first consider investor views regarding the importance of firm-level climate reporting, the shortcomings of available reporting, and the need for mandatory and standardized reporting. This analysis enables us to identify areas on which firms or regulators should focus to satisfy the disclosure demands of investors. In the second part of the analysis, we provide some first evidence on the relation between investor beliefs regarding the quality of current climate disclosures and perceived climate risk mispricing in equity markets. In the third part, we address investor views regarding important recent developments in climate disclosure—how their engagements with portfolio firms are influenced by the firms' climate disclosures and how the investors treat their own portfolio-level carbon footprint disclosures.

We find that the survey respondents share a strong general belief that climate disclosure is important. In fact, 51% of respondents believe that climate risk reporting is as important as traditional financial reporting, and almost one-third considers it to be more important. Only 22% of respondents regard climate reporting as less (or much less) important compared to financial reporting. Climate disclosure is perceived as more important among those investors who also believe more strongly that climate risks matter, and among those who expect larger global temperature increases due to climate change.

Climate change affects portfolio firms through three channels. Physical climate risks arise because of adverse effects of changes in the physical climate (e.g., temperature increases themselves, sea level rises, natural disasters). Technological climate risks originate from climate-related innovations that disrupt traditional producers (e.g., electric car manufacturers could displace

traditional manufacturers), and regulatory risks result from costs associated with changes in policies or regulations to combat climate change (e.g., carbon taxes, cap and trade markets).

With regard to these various types of climate risk, our survey reveals that climate disclosure is deemed most important by those investors that worry strongly about the financial consequences of the risks for their portfolio firms. In terms of their relative importance, concerns about physical climate risks matter the most for the perceived importance of climate reporting, while regulatory risks matter the least. An implication of this finding is that disclosure is likely to be most valuable when it enables investors to better evaluate the physical climate risks of firms, which would be less observable to investors than the regulatory risks. One reason may be that physical risks tend to be more firm and location specific, thus requiring precise information about a firm's exposure to evaluate them correctly. Regulatory risks, on the other hand, are usually more firm independent and regulator dependent, and information on such risks may be easier to obtain from sources outside of the firm.

The vast majority of our respondents believe that current quantitative and qualitative disclosures on climate risks are uninformative and imprecise. Many investors also share the view that climate risk reporting should be mandatory and standardized, as is currently the case with financial reporting. Investors that worry more about the financial effects of climate risks also agree more strongly that there should be more and better disclosure on climate risks. Our respondents also believe that investors should put pressure on firms to disclose more information about their climate risks. This widespread view echoes recent investor initiatives at Exxon Mobil and Occidental Petroleum, where a group of institutions submitted shareholder proposals calling for these firms to

share more information on their climate policies. Moreover, when the subsequent disclosure was still deemed inadequate, investors called for voting against the entire board.<sup>3</sup>

Next, we build on recent theoretical work that predicts a link between climate mispricing and disclosure (Daniel, Litterman, and Wagner 2017). We find that investors' opinions on the availability and quality of current climate reporting are strongly related to the perceived underpricing of climate risks in equity markets (i.e., climate-related overvaluation of firms). Notably, respondents who believe that current reporting is lacking also judge there to be more mispricing in current equity valuations. An important consequence of this finding is that better disclosure may contribute to the more efficient pricing of climate risks. This implication is consistent with the view expressed by Michael R. Bloomberg, Chair of the TCFD, that *"increasing transparency makes markets more efficient, and economies more stable and resilient."*<sup>4</sup>

The majority of the survey respondents appear to embrace the current developments in climate disclosure as they either currently engage or plan to engage their portfolio firms regarding reports that follow the recommendations of the TCFD.<sup>5</sup> Further, our respondents indicate support for the French approach requiring institutional investors to report on the carbon footprints of their portfolios: 60% of the respondents either currently disclose or plan to disclose their portfolios' CO<sub>2</sub> footprints. This result indicates support for ongoing European Union policy efforts to broaden the French approach to other member states.

In terms of the generalizability of our findings, we recognize that our respondent group is likely biased toward investors with a relatively high awareness of climate risks. The reason is that such investors are probably more disposed to participate in a climate risk survey. In addition, some of our

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<sup>3</sup> See "Exxon Shareholders Pressure Company on Climate Risks," *The Wall Street Journal*, May 31, 2017; "Occidental Shareholders Vote for Climate Proposal," *The Wall Street Journal*, May 31, 2017; and "Exxon Directors Face Shareholder Revolt Over Climate Change" *Bloomberg*, May 4, 2019.

<sup>4</sup> See <https://www.fsb-tcdf.org/>.

<sup>5</sup> These recommendations include disclosing climate-related risks and opportunities and their impact on firms' businesses; how firms governance structures deal with these risks and opportunities; how firms identify, assess, and manage climate risks; and which metrics and targets firms use to assess and manage carbon emissions.

responses were obtained at ESG conferences. Nevertheless, understanding the views and preferences of such investors is particularly important, because they are more likely to shape future disclosure policies through industry initiatives (e.g., TCFD, CDP, CERES, or UN-PRI) or lobbying with regulators.

Finally, to complement our survey analysis, we use observational data to test a basic prediction that follows from the survey responses, namely that the propensity to disclose carbon emissions should be larger among firms with higher institutional ownership. We proxy for disclosure by measuring whether a firm *voluntarily* reports carbon emissions. Using an international sample of firms between 2010 and 2017, we find that a one-standard deviation increase in institutional ownership increases the probability to disclose emissions by 0.04 (about 24 % relative to the unconditional probability of disclosing emissions).<sup>6</sup> In line with recent research emphasizing the importance of social and environmental norms of the countries in which institutional investors are located (see Dyck et al. 2019), we also document that the positive relation between disclosure and institutional ownership is primarily driven by institutions from countries with high social and environmental norms. Overall, this complimentary analysis is broadly consistent with our survey responses and supports the view that institutional investors value climate risk disclosure. Note that we do not aim to establish a causal effect of institutional ownership on climate disclosure, but rather try to document some basic relations in the data consistent with the survey responses.<sup>7</sup>

Our paper contributes to a relatively scarce academic literature on climate-related disclosure. Solomon et al. (2011) interview institutional investors who reveal that they use private channels of discourse with their portfolio firms to compensate for the inadequacies of public climate reporting. Matsumura, Prakash, and Vera-Muñoz (2014) conclude that markets discount firms that do not disclose carbon emissions through CDP, although Griffin, Lont, and Sun (2017) provide evidence

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<sup>6</sup> In untabulated analyses we find that that this relationship is stronger for firms in high-emission industries where climate risks are likely to be most severe.

<sup>7</sup> For example, the positive correlation between institutional ownership and carbon disclosure could also result from a selection effect, whereby some firms voluntarily disclose carbon related information to attract institutional shareholders.

suggesting that the differences may not arise from disclosure through CDP. The latter authors also show that disclosing emissions through 8-K filings lead to higher volatility around the disclosures. Plumlee et al. (2015) find a positive association between disclosure quality and firm value. Ilhan, Sautner, and Vilkov (2019) show that information about carbon risks (if disclosed) are used by investors, as firms with larger carbon emissions exhibit higher tail risk. Matsumura, Prakash, and Vera-Muñoz (2018) analyze voluntary 10-K climate risk disclosures and find that disclosers have lower costs of equity than non-disclosers.

Krueger (2015) examines the valuation effects of the introduction of mandatory greenhouse-gas (GHG) disclosures in the U.K., and shows beneficial valuation effects resulting from the regulation. More recently, Jouvenot and Krueger (2019) examine the real effects of the introduction of mandatory GHG reporting in the U.K. They document strong reductions in carbon emissions for U.K. firms relative to control firms from other jurisdictions. Focusing on the oil and gas industry, Eccles and Krzus (2018) examine the extent to which firms disclose information in line with the TCFD recommendations.

Our primary contribution to this literature is detailing institutional investors' views and actions on climate-related disclosures. More generally, we also contribute to the literature on nonfinancial (or sustainability) reporting, of which climate risks are an important component. (See Christensen, Hail, and Leuz (2019) for a review of the current literature on sustainability reporting.)<sup>8</sup>

## **2. Methodology and Survey Design**

### **2.1 Survey Development and Delivery**

We used both an online and a paper version of the survey that we distributed through four delivery channels, yielding a total of 439 responses.<sup>9</sup> First, we personally distributed the paper version

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<sup>8</sup> We also contribute to the general disclosure literature. See Leuz and Wysocki (2016) and Goldstein and Yan (2017) for reviews on this literature.

<sup>9</sup> The survey instrument is provided in Internet Appendix A. We used an iterative process for developing the survey. Details of this process are provided in Krueger, Sautner, and Starks (2019). The original survey also contained questions on climate risk management and shareholder engagement, which are covered in Krueger, Sautner, and Starks (2019).

of the survey at four institutional investor conferences: The Sustainable Investment Conference in Frankfurt on November 9, 2017; the ICGN Paris Event on December 6-7, 2017; the Asset Management with Climate Risk Conference at Cass Business School in London on January 23, 2018; and the ICPM Conference in Toronto on June 10-12, 2018. We obtained a total of 72 responses from these four conferences.

Second, we distributed the online version of the survey to 1,018 individuals in senior functions at institutional investors. We identified these individuals using the help of a survey service provider that manages a global panel of more than 5m registered professionals. The panel contains detailed data on these individuals' job titles and their age to identify relevant subsamples. The provider invited these individuals in March 2018 to participate in the survey and we obtained 410 initial responses. We then excluded 90 participants that took less than five minutes to complete the survey and participants for which basic checks yielded logical inconsistencies in the responses (Meade and Craig 2012). This process left us with 320 responses of good quality. These respondents took on average 15 minutes to complete the survey. The service provider had several mechanisms in place to ensure the authenticity of the participants.

Third, in April 2018, we emailed invitations to participate in the survey to a list of institutional investors that cooperate with a major asset owner through CERES and IIGCC on climate risk topics. We obtained 28 responses through this channel. Fourth, we sent invitations to participate in the online survey to personal contacts at different institutional investors, yielding 19 additional responses.

We are confident that in the vast majority of cases we have only one observation per institution. The reason is that, for 87% of the observations, key identifying characteristics do not coincide.<sup>10</sup> In the remaining cases we cannot exclude the possibility that respondents work for the same institution. However, the responses are sufficiently different among these respondents to

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<sup>10</sup> These characteristics are location, assets under management, institutional investor type, investor horizon, ESG share (+/-10% variation in the variable), equity share (+/-10%), and passive share (+/-10%).

discount that possibility with some degree of assurance. We provide a discussion of potential survey response bias in Krueger, Sautner, and Starks (2019).

## **2.2 Respondent Characteristics**

Table 1 provides an overview of the characteristics for our respondent groups. The largest numbers of respondents are fund or portfolio managers (21%), followed by executive or managing directors (18%). About one-third works at the executive level in their institutions, as CIO (11%), CEO (10%), or in related functions (10%). Most respondents work for asset managers (23%) and banks (22%), followed by pension funds (17%), insurance companies (15%), and mutual funds (8%). We also have a wide variation in the institutions' size as 11% of the respondents work for institutions with assets of more than \$100bn, 16% with assets between \$50bn and \$100bn, 23% with assets between \$20bn and \$50bn, 32% with assets between \$1bn and \$20bn, and 19% with assets less than \$1bn.

Only 5% of respondents' institutions typically hold investments for less than six months, 38% have medium holding periods (six months to two years), 38% have long holding periods (two years to five years), and the remaining 18% typically hold investments for more than five years. Our respondent' institutions are headquartered around the world: 32% are located in the U.S., 17% in the U.K. and Ireland, 12% in Canada, and 11% in Germany, among others. The average portfolio share of our respondents' institutions that incorporates ESG aspects is 41%, they invest on average 47% in equities (43% in fixed income), and 38% of their assets are on average passively invested.

Table 2 reports summary statistics of other survey variables that we employ in the regression analysis in the subsequent sections. We discuss these variables in detail below.

### 3. Evidence on Climate Risk Disclosure

#### 3.1 Importance of Climate Risk Disclosure

Reporting on nonfinancial information through CSR or climate risk reporting can have benefits but also costs to investors. On the one hand, nonfinancial disclosure can increase stock liquidity by alleviating adverse selection among investors (Verrecchia 2001). Reporting on nonfinancial information can also lower the cost of capital of portfolio firms (Plumlee et al. 2015, Matsumura, Prakash, and Vera-Muñoz 2018) and may allow for a better pricing and hedging of climate risks. On the other hand, nonfinancial disclosure can be costly to portfolio firms. A primary cost would result from the disclosure revealing proprietary information to competitors (Ellis, Fee, and Thomas 2012). While such costs could be less relevant for high level or aggregated disclosures, they could be substantial for detailed disclosures. For example, if a firm discloses detailed carbon reduction targets, this may allow competitors to infer a firm's future product market strategy. In light of these benefits and costs, it is theoretically ambiguous what importance investors attribute to reporting on climate risks.

To evaluate this theoretical ambiguity, we asked respondents to indicate how important they consider reporting on climate risks *relative to* reporting on financial information (Question B1). The corresponding responses are reported in Figure 1. We find that 51% of respondents believe that climate risk reporting is as important as financial reporting, and almost one-third even considers it to be more important. Interestingly, only 22% of respondents regard climate risk reporting as less or much less important compared to traditional financial reporting. Overall, these figures imply that disclosures related to a firm's climate risk exposure are considered important for the majority of institutional investors.

The extent to which investors view disclosure as being important as well as their concerns on the costs to the firm of such disclosures would be expected to vary across investors. For example,

some investors may view such costs as being secondary to a need to understand the climate risk or environmental degradation of the firm's operations. To examine whether systematic differences exist in perceptions of the relative importance of climate reporting in the cross-section, we conduct regressions in which the dependent variable is a measure that varies between one (climate risk reporting is much less important) and five (climate risk reporting is much more important), thus, building on the responses displayed in Figure 1. We consider five different investor responses as the primary independent variables and we control for the following investor characteristics: investor horizon, investor size (assets under management), the ESG and the passive share of the investor's portfolio, whether an investor is an independent institution (Ferreira and Matos 2008), and the social and environmental norms in an investor's country (Dyck et al. 2019). We further include fixed effects for the respondents' positions in their institutions and for the distribution channels. The results of these regressions are reported in Table 3.

The first question we consider is whether investors who rank climate risk as a greater relative risk perceive climate disclosure to be more important. Thus, the primary independent variable in this regression is the prominence the investor attaches to climate risk itself. We capture this idea using *Climate risk ranking*, which is the investor's ranking of climate risk considerations when making investment decisions. To construct this variable, we asked the respondents to rank climate risk relative to other investment risks (Question A1).<sup>11</sup> The resulting variable ranges between one (climate risk is the most important risk) and six (climate risk is the least important risk). Summary statistics on this variable are reported in Table 2, and Krueger, Sautner, and Starks (2019) discuss the variable in more detail.

The estimation results for *Climate risk ranking* are shown in Table 3, Column (1). Examining the coefficient estimate on *Climate risk ranking*, we find that those investors who rank climate risks higher also believe that climate reporting is more important. The effects are economically meaningful.

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<sup>11</sup> These other risks included traditional financial risks (e.g., earnings risk), operational risks, governance risks, social risks, and other environmental risks.

Compared to the median investor—who regards climate reporting to be just as important as financial reporting—an investor who ranks climate risks one standard deviation higher deems climate reporting 16%  $((-0.3 \times -1.6)/3)$  more important.

We next decompose climate risk into its component parts, physical risk, regulatory risk and technological risk to understand how investors' ratings of the financial materiality of these different components of climate risk are related to their views on the importance of climate disclosure. As discussed earlier, climate change can affect the value of portfolio firms through three channels. Physical climate risks can affect firms because of temperature rises, severe weather events, droughts, or rises in sea levels. Regulatory risks encompass costs that result from regulations aimed at reducing the negative impacts of climate change.<sup>12</sup> Technological risks relate to climate-related technological disruption that may adversely affect portfolio firms. In our survey, we asked the investors to rate the financial materiality of each of these risks. We then construct three variables to measure the investors' assessments of these risks (*Regulatory climate risk*, *Physical climate risk*, and *Technological climate risk*). Each of the variables can vary between one (not at all important) and five (very important).

In Columns (2) to (4), we report on the regression results for whether the importance of climate disclosure varies across investors based on how financially material they evaluate each of these three risks. Across all columns, we find that investors who deem climate risks more financially material also attach greater importance to climate reporting. This finding is consistent with the survey results for a related but different survey question asked by Amel-Zadeh and Serafeim (2018). They find that investment professionals consider ESG information financially material to investment performance. Most interestingly, the three coefficient estimates in Columns (2) to (4) differ substantially in magnitude. The estimate in Column (4) on *Physical climate risk* is almost 2.5 times as large as the estimate on *Regulatory climate risk* in Column (3). In a similar but less pronounced way, the estimate on *Technological climate risks* in Column (5) is substantially larger than the estimate on

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<sup>12</sup> Examples for such regulation include a carbon tax such as the one proposed in the *Economists Statement on Carbon Dividends*, signed by over 3,500 economists <https://www.clcouncil.org/>.

*Regulatory climate risk* in Column (3).<sup>13</sup> These differences suggest that disclosure is seen as most important when it comes to physical climate risks, followed by technological and then regulatory risks.

The strong role of physical risks in explaining the importance of climate disclosure may be because such risks tend to be more firm and location specific, requiring relatively precise information about a firm's exposure to evaluate them. The investor would then have lesser ability to gather the information and greater need for firm disclosure. In contrast, regulatory climate risks are more firm independent and regulator dependent, and information on such risks may be easier to obtain since firms in the same industry and country face similar regulatory risks (e.g., information could also be obtained from competitors). In addition, Krueger, Sautner, and Starks (2019) show that a relatively large fraction of investors believe that regulatory climate risks have already started materializing, while physical and technological risks are expected to materialize over longer horizons only. The more immediate character of regulatory risks might therefore imply that disclosure about them is less important than information about (potentially more distant) technological and physical risks.

We next turn to the question of whether the respondents' climate change expectations help explain the importance of climate reporting. To elicit expectations, we used the 2°C target of the Paris Climate Accord as an anchor, and then asked the respondents about their own global temperature expectations by the turn of this century (Question E1).<sup>14</sup> Responses could vary between one (no expectation of a temperature rise) and five (more than 3°C expected). Across all respondents, only 3% do not expect any temperature increase by 2100, 16% expect an increase by up to 1°C, and 30% by up to 2°C. Four in ten respondents expect a temperature rise that exceeds the Paris 2°C target, with 12% expecting an increase of more than 3°C.

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<sup>13</sup> As the distributions of the three risk variables are almost identical (see Table 2), we can directly compare the coefficient estimates to evaluate their relative importance. The coefficient on *Regulatory climate risk* is statistically different from those on *Physical climate risk* and *Technological climate risk*, while the latter two do not differ statistically.

<sup>14</sup> Under the 2015 Paris Climate Accord, 195 countries agreed to take significant measures to keep the global temperature rise under 2°C by the end of this century.

The regression results reported in Column (5) show that personal climate expectations appear highly relevant for explaining the investors' opinions on the importance of climate reporting: investors who expect a higher temperature rise also consider climate reporting to be more important. A one standard deviation increase in the expected temperature rise, which corresponds to moving up one notch in the possible response category, corresponds to a 10% (0.34/3) higher value for the importance attached to climate disclosures.

Table 3 also provides results for the control variables in each regression. We find, perhaps surprisingly, that medium- and long-term investors do not differ from short-term investors in their perceptions of the importance of climate reporting. Some of the control variable coefficients provide intuitive results. For example, we find that investors with more assets under management believe that climate reporting is more important, which is plausible as such investors tend to be universal owners and stand to lose more from climate risks. Further, more ESG-oriented investors generally regard climate disclosure as being more important, which is not surprising since the investment mandate of such investors is partially based on environmental aspects. Investors based in more climate-conscious countries generally regard climate disclosure as being more important, consistent with Dyck et al. (2019).

### **3.2 Evaluation of Current Disclosure Practice**

As discussed in the previous subsection, theory and archival evidence suggest that firms' nonfinancial information, and in this case, climate disclosure, should add value to firms. Further, investors have advocated for climate risk reporting by portfolio firms and the results in Table 3 support the argument that investors believe such reporting has value. However, firms' climate disclosure reporting is still in its infancy and as a result, largely voluntary and unstandardized.<sup>15</sup> In order to better understand investors' views on the informativeness of current climate risk disclosures, we survey the

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<sup>15</sup> To the best of our knowledge, the only country that compels all companies to follow a mandatory and prescriptive climate disclosure regime is the U.K., which introduced this with *The Companies Act 2006, Regulations 2013*. For an analysis of this regulation see Krueger (2015).

investors with a series of questions on qualitative disclosures, which can include narratives of how climate change affects business models or how climate risks are governed in firms, and on quantitative disclosures, which can contain information on carbon emissions or emission reduction targets. To assess investors' views on these disclosures, in Question B3 respondents were asked to indicate their agreement with a set of statements on a scale of one ("strongly disagree") through five ("strongly agree").

The responses, reported in Table 4, demonstrate a widespread view that current quantitative and qualitative disclosures are imprecise and not sufficiently informative. Specifically, many of our respondents strongly agree that management discussions on climate risk (20.8% strongly agree) as well as quantitative information on these risks (19.4% strongly agree) are not sufficiently precise. These numbers suggest that the current voluntary reporting regime does not enable fully informed investment decisions, at least for firms with large exposures to climate risks. This could be one reason why climate risks are considered difficult to price in equity markets, an issue we address in more detail below.

The responses to the previous two questions suggest that many firms currently do not consider the net benefits of reporting on climate risks to be sufficiently high, as they would otherwise reveal such information voluntarily. At the same time, investors seem to value such information, which raises the question whether mandatory and standardized reporting on climate risks is needed. In general, the economic rationale for mandatory disclosure regulation on climate risks requires the existence of externalities or market-wide cost savings that regulations can mitigate (Shleifer 2005). A firm's contribution to climate change can be viewed as such an externality. Standardization of climate reporting could make it easier and less costly for investors to acquire and interpret climate risk information and it could facilitate cross-firm and cross-industry benchmarking. A mandatory disclosure regime could also provide commitment and credibility for firms' climate disclosure, especially if the standards are specific and well enforced (Christensen, Hail, and Leuz 2019).

Indeed, Table 4 documents that many investors believe that standardized and mandatory reporting on climate risk would be valuable (26.9% strongly agree). Similarly, there is a widespread view among our respondents that there should be more standardization in climate-related financial disclosure across markets (27.4%). However, one challenge for changing the current reporting environment seems to be that standardized disclosure tools and guidelines are not yet widely available (21.3%), at least according to our respondents. Consideration should also be given to the Jayaraman and Wu (2018) evidence that beyond providing informational benefits, mandatory disclosure can also impose real costs on firms.

Overall, our respondents' views are consistent with recent initiatives that increase transparency on climate. For example, in June 2017, TCFD released its recommendations on climate-related financial disclosures, which centers on the role of climate risks for a firm's governance, strategy, and risk management, and how climate risks are reflected in metrics and targets. Using this comprehensive approach, the TCFD recommendations go well beyond simply disclosing carbon emissions.

Although complying with the TCFD recommendations is currently voluntary, recent developments suggest that these recommendations will eventually constitute the basis for mandatory and standardized climate disclosure in many countries. For example, in January 2018, a large group of central banks and supervisors formed the Network for Greening the Financial System, with the purpose of defining and promoting best practices in the development of environment and climate risk management in the financial sector and to mobilize mainstream finance to support the transition toward a sustainable economy. Institutional investors have already begun to develop initiatives on their own to improve the climate risk of their portfolios and to access climate risk data. For example, institutional investors have formed the Portfolio Decarbonization Coalition as well as Climate Action 100+. These initiatives are focused on climate risk in institutional investor portfolios, with the first intent on reducing the carbon footprint of portfolios and the second intent on engaging the largest

greenhouse gas emitters to minimize and disclose their climate risk exposures. Consistent with these initiatives, many of our respondents hold the strong belief that investors should put pressure on firms to disclose more on their climate risks (27.6% strongly agree), which also echo the recent investor initiatives at Exxon Mobil and Occidental Petroleum discussed earlier. This view of our respondents is also in line with the increasing role that climate topics played in the most recent proxy seasons (see Ceres, 2018, 2019).

Table 5 provides regressions explaining investors' views on current disclosure practices. Building on the responses in Table 4, the dependent variables in the table equal one if a respondent indicated "strong agreement" with a statement on the current disclosure practices, and zero otherwise. Our main explanatory variable that might drive investors' views about current disclosures is *Climate risk materiality*, which measures how respondents evaluate the financial effects of climate risks (Question A2). This variable averages the responses to the three questions about the materiality of regulatory, physical, and technological climate risks, and it can range between one ("not at all important") and five ("very important").

Columns (1) and (2) indicate that investors who believe that climate risks are more financially material also think more strongly that current information on climate risks is imprecise and uninformative. These investors also believe more strongly that there should be more standardization and mandatory requirements in climate disclosures (see Columns (3) and (4)). The results in Column (7) further suggest that investors who believe strongly that climate risks matter also strongly believe that investors should demand better disclosure from portfolio firms.

Turning to our control variables, we find that investors whose portfolios are more subject to ESG analysis believe more strongly that quantitative information on climate risks is imprecise. They also tend to agree more strongly that management discussions and disclosure forms are lacking in quality and informativeness. In addition, investors with more assets under ESG principles also believe more strongly that tools and guidelines for standardized disclosure are currently not available.

### 3.3 Climate Risk Disclosure and Climate Risk Mispricing

An important role for climate risk disclosure is in correcting mispricing, which may be present in equity markets according to recent research. On the empirical side, Hong, Li, and Xu (2019) document that markets underreact to climate risks because of poor disclosure, suggesting that improved disclosures may reduce mispricing. On the theoretical side, Daniel, Litterman, and Wagner (2017) develop a model in which uncertainty about the effect of CO<sub>2</sub> emissions on global temperature (and on eventual damages) is gradually resolved over time. Their model suggests a high carbon price today that is expected to decline over time as uncertainty about climate risks is resolved. One mechanism through which these uncertainties disappear is via climate risk disclosures. As firms evaluate the risks climate change poses on their business models and make their assessments public, equity prices should converge towards their fair valuations through the harmonization and comparability benefits of disclosures.

To contribute to this emerging literature on climate risk mispricing, we included a survey question to understand how institutional investors view this important issue. Thus, we asked the investors whether they believe that current equity valuations in different sectors of the economy correctly reflect the risks and opportunities related to climate change (Question D1).<sup>16</sup> Responses for each sector could vary between plus two (valuations much too high) and minus two (valuations much too low). Figure 2 reports the mean responses across sectors, showing that overvaluations are highest in the oil and automotive sector. (Krueger, Sautner, and Starks 2019 provide more discussion on how overvaluation varies across sectors.)

We use these data to create two dependent variables. For each respondent, *Climate risk underpricing* averages all positive mispricing scores across sectors (score of one or two), to capture the extent to which a respondent believes that there is climate-related overvaluation. Relatedly,

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<sup>16</sup> We allowed for over- and undervaluation across different sectors as some sectors may be overvalued (e.g., the oil or coal sectors), while other sectors may be undervalued (e.g., the battery producers, water utilities).

*Climate risk mispricing* averages for each respondent the absolute values of the mispricing scores across all sectors, to capture nondirectional mispricing. Table 2 shows that the average respondent believes that equity valuations in the average sector do not fully reflect the risks from climate change, as the mean value of *Climate risk underpricing* exceeds zero.

We next estimate whether investors' views on climate disclosure help partially explain any perceived climate risk mispricing. We focus on three independent variables that are informative about our respondents' views on the quantity and the quality of current climate reporting. The first variable measures whether a respondent "strongly agrees" that investors should demand more disclosure from portfolio firms about their exposure to climate risks (*Demand more disclosure*). The other two variables capture perceptions about the quality of available climate information, both in terms of hard (*Quantitative information imprecise*) and soft information (*Management discussion imprecise*).

Table 6 reports the corresponding results. The estimate in Column (1) indicates that respondents who more strongly agree that investors should demand disclosure on climate risks also see stronger overvaluations. In terms of magnitudes, climate risk-related overvaluations are almost 35% ( $=0.2/0.57$ ) higher, relative to the mean score of 0.57, among respondents who strongly agree that investors should demand more disclosure on climate risks. In Columns (2), we also find more perceived overvaluation among investors who believe that the available quantitative information about climate risks are imprecise. We find similar results in Column (3) for investors who think that management discussions on climate risk are not sufficiently precise. Taken together, this suggests that a lack of hard and soft information on climate risks contributes to the perception of climate risk underpricing in equity markets.

Columns (4) to (6) confirm these results using the measure that captures both directions of mispricing. The fact that we also find similar effects for this alternative variable suggests that better climate disclosure is useful in alleviating both directions of climate risk mispricing, i.e., the underpricing and overpricing of climate risks. Overall, the evidence in Table 6 indicates that the

demand for climate-related information, and beliefs about the quality of climate-related disclosure, are associated with mispricing in equity markets, at least as perceived by our respondents. An important implication of our evidence is that better disclosure may contribute to a more efficient pricing of climate risks.

### **3.4 Recent Trends in Climate Risk Disclosure**

We used two questions to evaluate recent trends in climate risk disclosure. In the first question, we evaluated the respondents' views related to a new investor practice championed by a French law, which requires since 2016 carbon reporting on the portfolios of institutional investors (Article 173).<sup>17</sup> Our respondents indicate support for this approach, which is considered to be one of the most ambitious climate risk regulations in the world: 60% stated in response to Question B2 that they already disclose or plan to disclose the carbon footprint of their own investment portfolios (Figure 3). This result also speaks to ongoing policy efforts at the European Union level. Under Article 7 of the European Commission's action plan on sustainable finance, it is discussed to amend EU Directive 2016/2341 (IORP 2-Pensions), which would require increased disclosures by institutional investors relating to sustainability risks.

In the second question, we asked whether the investors engage or plan to engage portfolio firms to report in accordance with the TCFD recommendations (Question E5). This is a highly relevant topic given that several major investors announced that this topic as a prime area for their shareholder engagement (Blackrock 2017). Figure 4 shows that this approach is shared widely, as 59% of investors plan to engage firms on this topic. Interestingly, a quarter of our survey participants responded with "Do not know", which could indicate that these institutional investors have not made a decision on this type of engagement yet or perhaps that they are not familiar enough with the recommendations.

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<sup>17</sup> See "France Gets Climate Risks Disclosures from Invest Firms," *Wall Street Journal*, December 7, 2017. The law also requires investors to report on how they identify and manage climate risks.

In order to understand the cross-sectional differences in the investor responses, we conduct regressions using investor characteristics to explain investors' behavior in terms of action according to these recent developments. We use two dependent variables: *Carbon footprint* equals one if an investor discloses (or plans to disclose) the carbon footprint of their portfolio, and zero if not. *TCFD* equals one if an investor engages (or plans to engage) portfolio firms to report according to the recommendations of the TCFD.

The results are reported in Table 7. Column (1) indicates that investors who believe that climate risks are more financially material are also more likely to disclose the carbon footprint of their portfolios. Investors with more assets under management, and investors whose portfolios have higher ESG shares, are also more likely to disclose their own carbon footprints. These findings are intuitive as one would expect investors who believe in the financial materiality of climate risks, and those that are more ESG oriented, have stronger incentives to make the carbon footprint of their portfolios publicly available. To the extent that calculating and disclosing the carbon footprints of portfolios is costly, it is also unsurprising that bigger institutions are more likely to do so (perhaps because they have more financial resources). Larger investors might also face more scrutiny by stakeholders on these issues, making them more likely to initiate actions. The latter argument is consistent with Krueger, Sautner, and Starks (2019), who find that reputational concerns are one of the most important drivers for institutional investors to incorporate climate risk into the investment process. Contrary to what might be an expectation, medium- and long-term investors have a lower propensity to (plan to) disclose the carbon footprint of their portfolios compared to short-term investors.

Column (2) suggest that investors with bigger ESG shares are more likely to engage their portfolio firms to report according to the TCFD recommendations. We also find that investors in countries where environmental issues are seen to be more important are more likely to engage their portfolio firms over climate risk disclosure, which is consistent with Dyck et al. (2019). We do not find that investors differ in their likelihood of engaging portfolio firms along dimensions of climate risk

materiality, investment horizons, or assets under management. This suggests that the adoption of these recommendations is widespread among a variety of institutional investors.

We close our analysis of the survey responses by examining whether and how investor adoption of recent developments in climate disclosure relate to investor demand about more and better reporting on climate risks. We test several predictions. First, to more accurately disclose the carbon footprint of their portfolios, investors may want more high-quality reporting on climate risks. Such investors may also believe more strongly that investors should demand disclosures from their portfolio firms. Second, investors who engage or plan to engage firms to report according to the TCFD recommendations may see a stronger need for better quality, and more standardized, disclosures.

Table 8 reports results from regressions which use as dependent variables our measures of investor beliefs about the current disclosure trends. We focus on three aspects, namely the quantity of available information, the quality of information, and standardization and mandatory reporting requirements (see Question B3). To capture the adoption of current trends in climate reporting, we use the explanatory variables *Carbon footprint* and *TCFD*.

The estimates indicate that investors who disclose (or plan to disclose) the carbon footprint of their portfolios demand more disclosure about climate risks, and they also believe that such firms' disclosure should be done in a more standardized and mandatory way. Investors planning or already disclosing their portfolio carbon footprint also believe that management discussions about climate risks are currently imprecise.

Given that calculating portfolio carbon footprints primarily requires quantitative information, we find surprisingly little evidence that investors who (plan to) disclose their footprints perceive current quantitative information as imprecise. Hence, it seems that firm-level quantitative information relevant for investors' carbon footprint calculations is not overly insufficient. This is possibly the result of initiatives such as CDP, which already collects emissions data by means of a survey. Nevertheless,

there is a strong view among investors who (plan to) disclose their carbon footprints that climate disclosures should be more standardized and mandatory. This is consistent with the idea that, to disclose a portfolio carbon footprint, standardized issuer-level information is required and that such data is often not available for all firms in the same format. This interpretation is echoing the concerns by Yngve Slyngstad of Norges Bank Investment Management (see Introduction). Indeed, Jouvenot and Krueger (2019) show that mandatory and prescriptive carbon requirements dramatically increase the availability of carbon data at the issuer level.

We further find that investors that plan to engage firms to report according to the TCFD recommendations see a stronger need for more disclosure, and they also believe more strongly that disclosure should be standardized and mandatory. On the other hand, such investors do not seem to think that current quantitative information or management discussions are imprecise. Thus, investors seem to be interested in the TCFD recommendations as it provides them with one way to impose some structure on climate risk reporting towards their portfolio firms (rather than as a way to obtain more precise information).

#### **4. Institutional Ownership and Climate Risk Disclosure: Complimentary Evidence from Archival Data**

Our survey responses indicate that institutional investors value firm disclosure on climate risks and, as a result, increasingly engage with portfolio firms to encourage disclosure of such information. Disclosed information on climate risks allows investors to better evaluate how regulatory changes (e.g., a carbon tax) or climate-related technological innovations may affect the risks and returns of portfolio firms with high carbon emissions.

To complement our survey analysis, we use archival data to test some basic predictions that follow from our investors' survey responses. First, we test whether the propensity to disclose information on carbon emissions is larger among firms with higher institutional ownership. Second, we examine whether the propensity to disclose climate-related information depends on the extent to which a firm is owned by institutions located in countries with high social and environmental norms.

This analysis is inspired by Dyck et al. (2019), who provide evidence that a firm's CSR policies are driven by institutional owners located in countries with high social and environmental norms. Finally, we test whether the *quality* of the disclosed information is higher among firms with higher institutional ownership. The objective of these additional analyses is not to establish a causal effect of institutional ownership, but rather to document some basic relations consistent with our survey responses.

#### **4.1. Institutional Ownership and Voluntary Disclosure of Carbon Emissions**

To put our first prediction to test, we employ a measure of voluntary disclosure by looking at whether a firm discloses the amount of carbon emissions it generates. We measure disclosure based on reporting to CDP, as this constitutes the main sources of carbon emissions data available to investors. CDP is a non-profit organization that uses an annual survey instrument to collect data on whether and how firms manage climate-related issues. CDP collects these data on behalf of institutional investors representing over \$87tr in assets under management in 2018. Many institutional investors use these data for their own climate risk management (Krueger, Sautner, and Starks 2019), and leading ESG data providers employ them as input for their rating models (e.g., MSCI ESG Research, Bloomberg, Refinitiv, or Sustainalytics). Importantly, most firms are not obliged by regulation or accounting standards to disclose their carbon emissions (in fact, many firms decide not to do so).<sup>18</sup> We use an international sample of firms by matching firms that disclose emissions to CDP with the global Worldscope/Datastream universe. We obtain information on institutional ownership using international institutional ownership data from Factset (Ferreira and Matos 2008).

One caveat of this analysis is that we do not explicitly observe which firms were contacted by CDP with an information request. Therefore, we follow the approach in Krueger (2015) to create a

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<sup>18</sup> A notable exception is the United Kingdom, where mandatory carbon emissions disclosure in firms' annual reports was introduced for large listed companies in 2013 (see Krueger (2015) and Jouvenot and Krueger 2019). Through the Streamlined Energy and Carbon Reporting (SECR) policy, the U.K. government has recently extended this mandatory disclosure requirements to all firms.

sample of firms in the Worldscope/Datastream universe that were likely contacted by CDP.<sup>19</sup> Our sample period spans the years 2009 to 2017. Summary statistics are reported in Internet Appendix Table 1.

Table 9 reports OLS regressions that explore the effect of institutional ownership on a firm's propensity to voluntarily disclose carbon emissions. The dependent variable is *Scope 1 Disclosure*, which equals one if a firm discloses Scope 1 carbon emissions to CDP in a given year, and zero otherwise. Scope 1 emissions are direct emissions from owned or controlled sources of the disclosing company. These emissions are distinct from Scope 2 and Scope 3 emissions, which are either indirect emissions from the generation of purchased energy (Scope 2), or all indirect emissions (not included in Scope 2) that occur in the value chain (both upstream and downstream) of the reporting company (Scope 3). In Column (1), the independent variable of interest is *Total IO*, which measures the fraction of a firm's equity that is owned by institutional investors.

The regression shows a positive relation between disclosure and institutional ownership: a one-standard deviation increase in institutional ownership increases the probability of disclosing emissions by about 24% relative to the unconditional mean of the dependent variable. In Column (2), we stratify institutional ownership according to whether institutions are headquartered in countries with high or low social and environmental norms. Following Dyck et al. (2019), we measure a country's social norms concerning environmental issues with the Environmental Performance Index (EPI) obtained from Yale Center of Environmental Law and Center for International Earth Science Information Network. We define a country to be in the high-norm group if its EPI is higher than the median in a given year, and in the low-norm group otherwise. *High-norm (Low-norm) IO* measures the

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<sup>19</sup> More specifically, using the approach in Krueger (2015), we take the largest 500 firms from the U.S., 725 from the U.K, 500 from Japan, 250 from France, 250 from South Korea, 200 from Australia, 50 from New Zealand, 200 from Canada, 200 from India, 100 from Brazil, 100 from Italy, 100 from Turkey, 100 from Switzerland, 50 from Russia, 30 from Ireland, 100 from China, 250 from Germany and Austria, 150 from Benelux countries, 125 from Spain and Portugal, 260 from the Nordic countries, 170 from Asian countries excluding Japan, India, China and South Korea, 80 from Mexico, Chile, Colombia and Peru.

percentage of a firm's equity owned by institutions from high (low) norm countries. By construction, *Total IO* is the sum of *High-norm IO* and *Low-norm IO*.

The regression shows that disclosure of Scope 1 emissions is mainly driven by investors from high-norm countries. To control for different layers of unobserved heterogeneity, Columns (3) to (10) show that the results are robust to different fixed effects specifications.<sup>20</sup>

#### **4.2. Institutional Ownership and Quality of Voluntary Disclosure**

We next test whether institutional ownership is also associated with the quality of climate disclosures. Besides requesting information on the quantity of carbon emissions, CDP also asks reporting entities about whether a third party has verified the reported emissions. Akin to auditing of financial accounts, the major auditing firms also provide GHG emissions disclosure verification. We create three dummy variables for the verification of Scope 1, Scope 2, and Scope 3 disclosers that each equal one if a firm has sought verification by a third party for the respective emissions. From these variables we create the variable *Emission verification*, which simply sums the three dummy variables to capture the overall extent to which a firm uses third party verification for its emissions. We interpret verified emissions as a signal of higher disclosure quality.

In Table 10 we employ *Emission verification* as the dependent variable and otherwise use the same specifications as in Table 9. We find in Column (1) that there is no relationship between total institutional ownership (*Total IO*) and the emission verification variable. However, when replacing *Total IO* by its high and low environmental norms components in Column (2), we find that higher ownership by institutions from high norms countries is associated with more emissions verification. In other words, when institutional owners are more concerned with environmental issues, the quality of

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<sup>20</sup> In Internet Appendix Tables 2 and 3, we also use the propensity to disclose Scope 2 and Scope 3 emissions as the dependent variable, which yields identical conclusions.

carbon disclosures is likely to be better. Interestingly, the reverse is true when there is a higher fraction of ownership by institutions from low norms countries.

## **5. Conclusion**

We use a global survey of institutional investors to examine firm-level climate risk disclosure. A large majority of our survey respondents believes that climate risk reporting by portfolio firms is important. In fact, many respondents consider it as important, or even more important, than reporting on traditional financial risks. At the same time, a widespread view exists that climate risk disclosure needs improvement, in terms of the availability and quality of hard and soft climate-related information. Many investors further believe that firm-level reporting should be more standardized and mandatory.

In cross-sectional tests, we find that investors who think that climate risks are more financially material also deem climate disclosure to be more important. In a similar spirit, investors who expect larger global temperature increases by the end of the century also believe that climate disclosure is more important. Our analysis suggests that firm-level disclosure seems more important for assessing physical and technological climate risks, and less so for regulatory risks.

The views on the availability and quality of climate-related disclosures are associated with investor-level perceptions of climate risk mispricing in the equity market. Respondents who believe that investors should require firms to report on climate risks, and investors who regard both quantitative and qualitative climate information to be insufficient, perceive more mispricing in current equity valuations. Finally, the majority of our respondents plans to engage portfolio firms to report according to the TCFD recommendations. A majority of investors also discloses or plans to disclose the carbon footprint of their own investment portfolio.

We close our analysis by using archival data to show that the propensity to voluntarily disclose information on carbon emissions is larger among firms with higher institutional ownership, in

particular if such institutional ownership originates from countries with high environmental norms. We also show that the presence of institutional owners from countries with high environmental norms is related to the quality of firm-level carbon disclosures. Taken together, this complimentary evidence supports the survey interpretation that institutional investors value climate disclosure and increasingly engage portfolio firms encourage to disclose their emissions and improve the quality of their climate-related disclosures.

Our analysis is important because through our survey we are able to shed light on many important investor perspectives and actions that cannot be studied using archival data. This enables us to contribute to the emerging literature on climate finance and, more generally, to the literature on nonfinancial disclosure.

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## Data Appendix

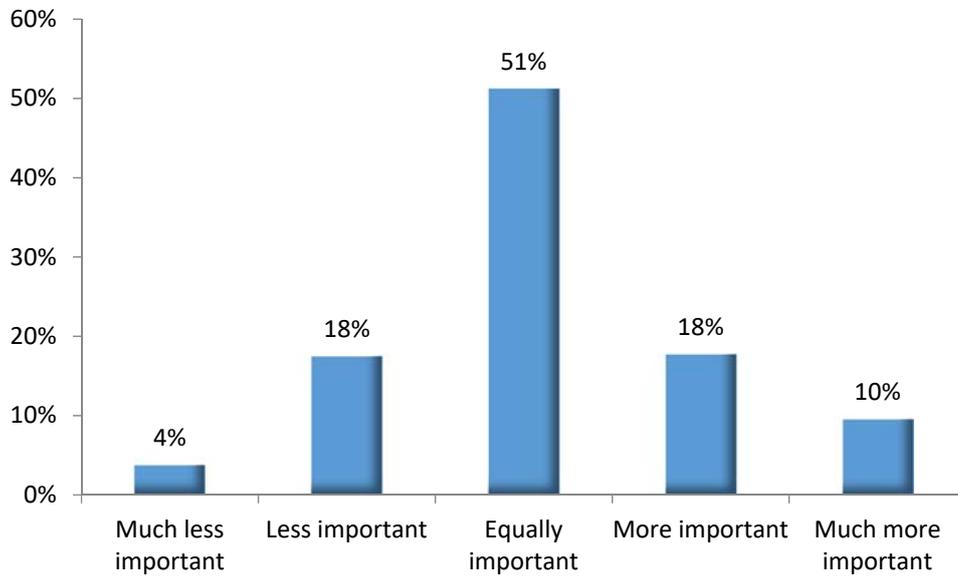
Variable	Definition	Survey Question
<i>Importance climate risk disclosure</i>	This variable measures how important investors consider reporting by portfolio firms on climate risks compared to reporting on financial information. The variable ranges between one and five, with one indicating that climate risk reporting is “much less importance” and five indicating that it is “much more important”.	Question B1
<i>Climate risk ranking</i>	This variable is the outcome of a ranking of the importance of climate risks relative to other more standard investment risks. The variable ranges from one (if climate risks are considered the most important risk) to six (if they are considered the least important risk).	Question A1
<i>Regulatory climate risk</i>	This variable measures the financial materiality of regulatory climate risk. The variable can range between one (not at all important) and five (very important).	Question A2
<i>Physical climate risk</i>	This variable measures the financial materiality of physical climate risk. The variable can range between one (not at all important) and five (very important).	Question A2
<i>Technological climate risk</i>	This variable measures the financial materiality of technological climate risk. The variable can range between one (not at all important) and five (very important).	Question A2
<i>Temperature rise expectation</i>	<i>Temperature rise expectation</i> measures investors’ expectations about what the global temperature rise will be by the end of the 21 <sup>st</sup> century. This variable can vary between one (no expectation of a temperature rise) and five (more than 3°C expected).	Question E1
<i>Climate risk materiality</i>	This variable averages the responses to three questions about the financial materiality of regulatory, physical, and technological climate risk. Each of these three variables can range between one (not at all important) and five (very important).	Question A2
<i>Management discussions imprecise</i>	This variable takes the value of one if a respondent strongly agrees that management discussions on climate risk are not sufficiently precise, and zero otherwise.	Question B3
<i>Quant. information imprecise</i>	This variable takes the value of one if a respondent strongly agrees that firm-level quantitative information on climate risk is not sufficiently precise, and zero otherwise.	Question B3
<i>Stand. and mandatory reporting necessary</i>	This variable takes the value of one if a respondent strongly agrees that standardized and mandatory reporting on climate risk is necessary, and zero otherwise.	Question B3
<i>More standardization</i>	This variable takes the value of one if a respondent strongly agrees that there should be more standardization across markets in climate-related financial disclosure, and zero otherwise.	Question B3
<i>Disclosure tools not available</i>	This variable takes the value of one if a respondent strongly agrees that standardized disclosure tools and guidelines are currently not available, and zero otherwise.	Question B3
<i>Disclosure forms not informative</i>	This variable takes the value of one if a respondent strongly agrees that mandatory disclosure forms are not sufficiently informative regarding climate risk, and zero otherwise.	Question B3
<i>Demand more disclosure</i>	This variable takes the value of one if a respondent strongly agrees that investors should demand that portfolio firms disclose their exposure to climate risk, and zero otherwise.	Question B3
<i>Climate risk underpricing</i>	This variable averages positive mispricing scores (negative scores are set to zero). The variable ranges between plus two (strong average overvaluation) and zero (no average overvaluation).	Question D1
<i>Climate risk mispricing</i>	This variable averages the absolute values of all mispricing scores and can take the values of zero, one, and two.	Question D1

<i>Carbon footprint</i>	This variable takes the value of one if a respondent discloses or plans to disclose the overall carbon footprint of their portfolio, and zero otherwise.	Question B2
<i>TCFD</i>	This variable takes the value of one if a respondent engages or plans to engage portfolio companies to report according to the recommendations of the Task Force on Climate-related Financial Disclosures, and zero otherwise.	Question E5
<i>Medium horizon</i>	This variable takes the value one if the indicated typical holding period of an institutional investor is between six months and two years, and zero otherwise.	Question G2
<i>Long horizon</i>	This variable takes the value one if the indicated holding period of an institutional investor is above two years, and zero otherwise.	Question G2
<i>Assets under management</i>	This variable indicates the size of an institutional investor and takes the values of one (assets under management less than \$1bn); two (between \$1bn and \$20bn); three (between \$20bn and \$50bn); four (between \$50bn and \$100bn); and five (more than \$100bn).	Question G6
<i>ESG share</i>	This variable is the percentage of the institution's portfolio that incorporates ESG issues	Question G5
<i>Passive share</i>	This variable is the percentage of the institution's portfolio that is passively managed.	Question G4
<i>Independent institution</i>	This variable takes the value one if an institutional investor is considered to be an independent institution, and zero otherwise. As in Ferreira and Matos (2008) and Dyck et al. (2019), independent institutions are more likely to collect information, have fewer potential business relationships with the corporations they invest in, and therefore are anticipated to be more involved in monitoring management. We classify mutual funds, asset managers, hedge funds, private equity funds, and public pension funds as independent institutions.	Question G1
<i>HQ country norms</i>	This variable captures the importance of environmental issues in the country in which an institutional investor is headquartered. The data are from Dyck et al. (2019), who construct the variable based on the Environmental Performance Index obtained from the Yale Center for Environmental Law (Yale University) and the Center for International Earth Science Information Network (Columbia University) for 2004. Larger numbers reflect a stronger common belief in the importance of environmental issues.	Question G7
<i>Scope 1 disclosure</i>	Fraction of firms that disclose Scope 1 carbon emissions to CDP out of all the firms CDP requested information from. The list of firms CDP requests information from is obtained from Krueger (2015).	CDP
<i>Emission verification</i>	We create three indicator variables that are each equal to one if a firm's (Scope 1/Scope 2/Scope 3) emissions are verified by a third party, and zero otherwise. <i>Emission verification</i> equals to the sum of these three variables and is meant to capture the overall third-party verification of a firm's emissions	CDP
<i>Scope 2 disclosure</i>	Fraction of firms that disclose Scope 2 carbon emissions to CDP out of all the firms CDP requested information from. The list of firms CDP requests information from is obtained from Krueger (2015).	CDP
<i>Scope 3 disclosure</i>	Fraction of firms that disclose Scope 3 carbon emissions to CDP out of all the firms CDP requested information from. The list of firms CDP requests information from is obtained from Krueger (2015).	CDP
<i>Log(Assets)</i>	The natural logarithm of total assets (Worldscope data item WC02999) at the end of the fiscal year. Winsorized at the 1% level.	Worldscope
<i>Dividends/Net income</i>	Dividends (Worldscope data item WC04551) at the end of the fiscal year, divided by net income/loss at the end of the fiscal year (Worldscope data item WC01706). Winsorized at the 1% level.	Worldscope

<i>Debt/Assets</i>	Sum of the book value of long-term debt (Worldscope data item WC03251) and the book value of current liabilities (WC03101) at the end of the fiscal year, divided by total assets at the end of the fiscal year (Worldscope data item WC02999). Winsorized at the 1% level.	Worldscope
<i>EBIT/Assets</i>	Earnings before interest and taxes (Worldscope data item WC18191) at the end of the fiscal year, divided by total assets at the end of the fiscal year (Worldscope data item WC02999). Winsorized at the 1% level.	Worldscope
<i>CapEx/Assets</i>	Capital expenditures at the end of the fiscal year (Worldscope data item WC04601), divided by total assets at the end of the fiscal year (Worldscope data item WC02999). Winsorized at the 1% level.	Worldscope
<i>Book-to-market</i>	Difference between common equity (Worldscope data item WC03501) and preferred stock capital (WC03451) at the end of the fiscal year, divided by the equity market value (MV) at the end of the fiscal year. Winsorized at the 1% level.	Worldscope
<i>Total IO</i>	Fraction of outstanding shares owned by institutional investors at the end of the fiscal year.	Factset
<i>High norm IO</i>	Fraction of outstanding shares owned by institutional investors in High Norm countries as defined by Dyck et al. (2019) at the end of the fiscal year.	High Factset
<i>Low norm IO</i>	Fraction of outstanding shares owned by institutional investors in Low Norm countries as defined by Dyck et al. (2019) at the end of the fiscal year.	Low Factset

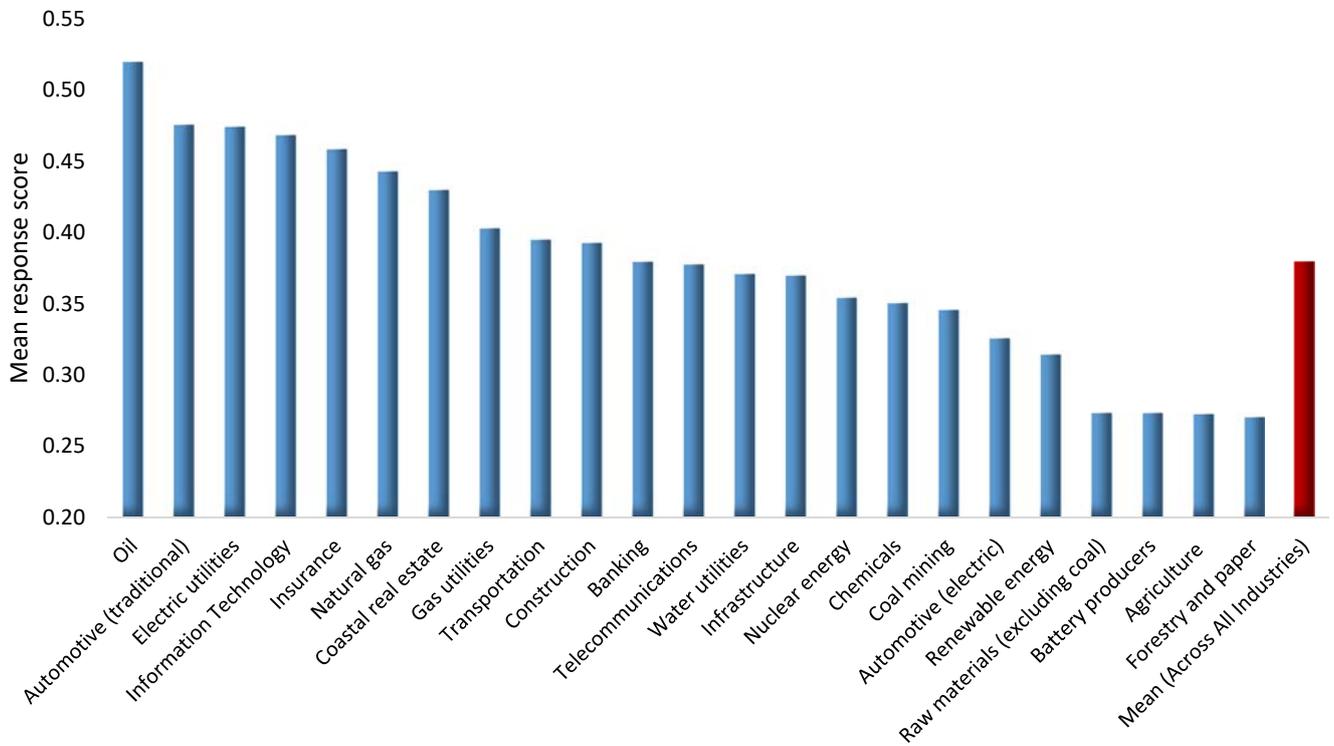
**Figure 1: Disclosure of Climate Risks**

This figure illustrates how important investors consider reporting by portfolio firms on climate risks compared to reporting on financial information (Question B1). We ask survey participants how important they consider reporting by portfolio firms on climate risk compared to reporting on financial information. The data are based on the responses of 439 individuals that participated in our survey.



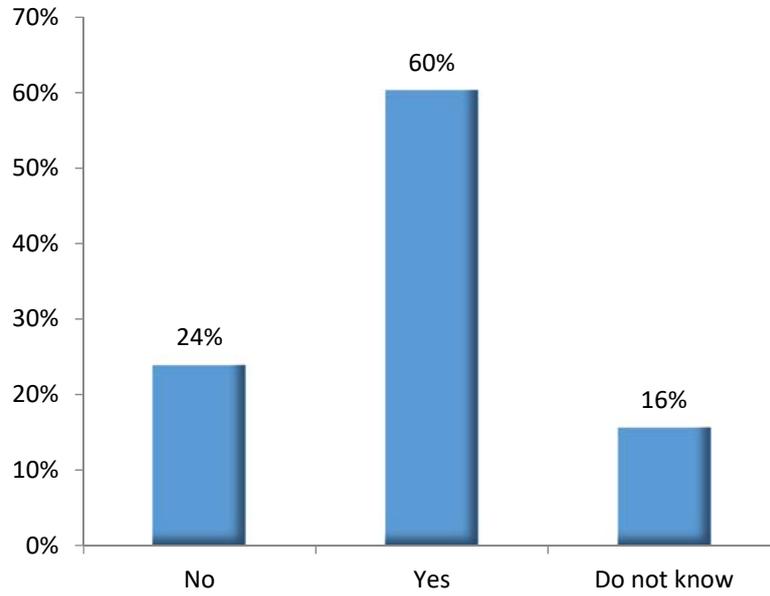
**Figure 2: Climate Risk Mispricing**

This figure reports investors' beliefs about whether current equity valuations in different sectors correctly reflect the risks and opportunities related to climate change (Question D1). Responses for each sector could vary between plus two (valuations much too high) and minus two (valuations much too low). The figure reports the mean response scores per sector. The data are based on the responses of 439 individuals that participated in our survey.



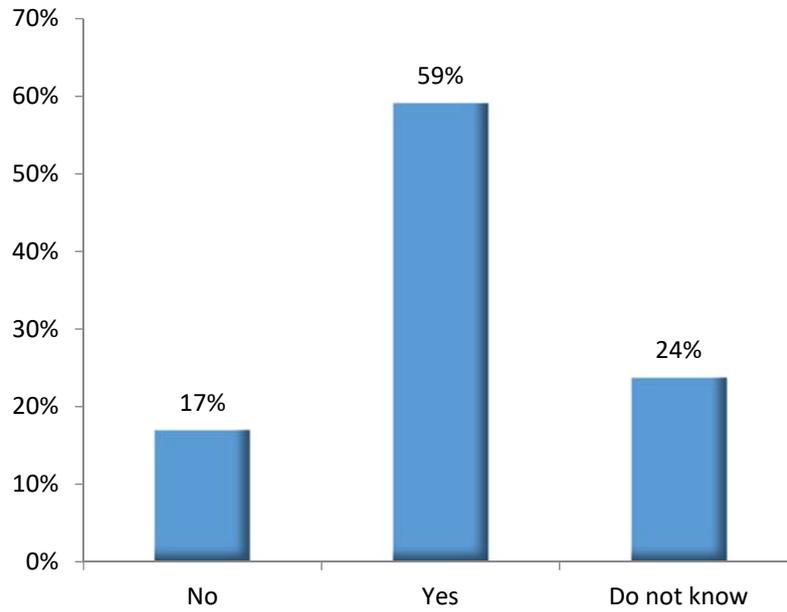
### Figure 3: Carbon-Footprint Disclosure by Investors

This figure reports whether which fraction of investors discloses or plans to disclose the overall carbon footprint of their portfolios (Question B2). The data are based on the responses of 439 individuals that participated in our survey.



#### Figure 4: Engagement of Portfolio Firms to Report According to TCFD Recommendations

This figure reports information about whether the investors engage or plan to engage their portfolio firms to report according to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) (Question E5). The data are based on the responses of 439 individuals that participated in our survey.



**Table 1: Survey Respondent Characteristics**

This table provides summary statistics on the characteristics of the 439 individuals that participated in our survey. As not all respondents provided information on all characteristics, the number of observations used in the different parts of the table can fall below 439. We report data on the distribution channel, position of the responding individuals (Question G8), type of institution (Question G1), institution size (Question G6), investment horizon (Question G2), geographic distribution (Question G7), the ESG share (Question G5), the equity and fixed-income share (Question G3), and the passive share (Question G4).

Distribution channels (N=439)		Percentage	Investor horizon (N=432)		Percentage
Panel		73	Short (less than 6 months)		5
Conferences		16	Medium (6 months to 2 years)		38
Asset owner		6	Long (2 years to 5 years)		38
Personal		4	Very long (more than 5 years)		18
Respondent Position (N=428)		Percentage	Region (N=429)		Percentage
Fund/Portfolio manager		21	United States		32
Executive/Managing director		18	United Kingdom		17
Investment analyst/strategist		16	Canada		12
CIO		11	Germany		11
CEO		10	Italy		7
CFO/COO/Chairman/Other executive		10	Spain		5
ESG/RI specialist		10	The Netherlands		4
Other		2	France		3
Institutional investor type (N=439)		Percentage	Others (<3%)		9
Asset manager		23	Investment structure		Mean
Bank		22	ESG share (N=415)		40.6%
Pension fund		17	Equity share (N=400)		47.0%
Insurance company		15	Fixed-income share (N=402)		43.1%
Mutual fund		8	Passive share (N=419)		38.2%
Other institution		15			
Assets under management (N=430)		Percentage			
Less than \$1bn		19			
Between \$1bn and \$20bn		32			
Between \$20bn and \$50bn		23			
Between \$50bn and \$100bn		16			
More than \$100bn		11			

**Table 2: Descriptive Statistics**

This table provides summary statistics of the main survey-based variables that we use in the regression analysis. The data are based on the responses of 439 individuals that participated in our survey. As not all respondents provided answers to all questions, the number of observations used in the different parts of the table can fall below 439. Detailed variable definitions are in the Data Appendix.

Variable	Mean	STD	Median	Obs.	Survey question
<i>Importance climate risk disclosure</i>	3.1	0.9	3.0	416	B1
<i>Climate risk ranking</i>	4.0	1.6	4.0	386	A1
<i>Temperature rise expectation</i>	3.3	1.0	3.0	342	E1
<i>Regulatory climate risk</i>	3.8	1.0	4.0	393	A2
<i>Physical climate risk</i>	3.5	1.1	4.0	393	A2
<i>Technological climate risk</i>	3.8	1.0	4.0	393	A2
<i>Climate risk materiality</i>	3.7	0.8	3.7	393	A2
<i>Demand more disclosure</i>	0.3	0.4	0.0	413	B3
<i>Quantitative information imprecise</i>	0.2	0.4	0.0	413	B3
<i>Management discussions imprecise</i>	0.2	0.4	0.0	413	B3
<i>Standardized and mandatory reporting necessary</i>	0.3	0.4	0.0	413	B3
<i>Disclosure forms not informative</i>	0.2	0.4	0.0	411	B3
<i>More standardization</i>	0.3	0.4	0.0	412	B3
<i>Tools not available</i>	0.2	0.4	0.0	413	B3
<i>Climate risk overpricing</i>	0.6	0.4	0.5	357	D1
<i>Climate risk mispricing</i>	0.8	0.4	0.7	357	D1
<i>Carbon footprint</i>	0.7	0.5	1.0	327	B2
<i>TCFD</i>	0.8	0.4	1.0	304	E5
<i>Medium horizon</i>	0.8	0.4	1.0	432	G2
<i>Long horizon</i>	0.2	0.4	0.0	432	G2
<i>Assets under management</i>	2.7	1.3	2.0	430	G6
<i>ESG share</i>	0.4	0.3	0.3	415	G5
<i>Passive share</i>	0.4	0.2	0.4	419	G4
<i>Independent institution</i>	0.5	0.5	1.0	439	G1
<i>HQ country norms</i>	0.6	0.1	0.6	425	G7

**Table 3: Importance of Climate Risk Disclosure**

This table reports ordered logit regressions explaining the perceived importance of disclosure (relative to financial disclosure). The dependent variable, *Importance climate risk disclosure*, measures how important investors consider reporting by portfolio firms on climate risks compared to reporting on financial information. The variable ranges between one and five, with one indicating that climate risk reporting is “much less importance” and five indicating that it is “much more important” (see Figure 1). We use the following independent variables: *Climate risk ranking* is the outcome of a ranking of the importance of climate risks relative to other risks. The variable ranges from one (most important risk) to six (least important risk). *Regulatory, physical, and technological climate risk* measure the financial materiality of regulatory climate risk, physical climate risk and technological climate risk (Question A2). All three variables can range between one (not at all important) and five (very important). *Temperature rise expectation* measures investors’ expectations about what the global temperature rise will be by the end of this century (Question E1). This variable can vary between one (no expectation of a temperature rise) and five (more than 3°C expected). We additionally control for: *Medium horizon; Long horizon; Assets under management; ESG share; Passive share; Independent institution; and HQ country norms*. Detailed variable definitions are in the Data Appendix. *t*-statistics (reported in parentheses) are based on standard errors that are clustered at the investor-country level. \*\*\*, \*\*, \* indicate significance levels of 1%, 5%, and 10%, respectively.

	<i>Importance climate risk disclosure</i>				
	(1)	(2)	(3)	(4)	(5)
<i>Climate risk ranking</i>	-0.30*** (-4.37)				
<i>Regulatory climate risk</i>		0.30*** (4.05)			
<i>Physical climate risk</i>			0.71*** (6.58)		
<i>Technological climate risk</i>				0.53*** (6.57)	
<i>Temperature rise expectation</i>					0.34*** (2.93)
<i>Medium horizon</i>	-0.22 (-0.52)	-0.11 (-0.21)	-0.2 (-0.33)	-0.2 (-0.48)	0.08 (0.16)
<i>Long horizon</i>	-0.1 (-0.20)	-0.14 (-0.23)	-0.37 (-0.50)	-0.22 (-0.36)	-0.03 (-0.05)
<i>Assets under management</i>	0.21*** (2.70)	0.23** (2.41)	0.18* (1.93)	0.23** (2.52)	0.25** (2.43)
<i>ESG share (x100)</i>	0.83 (1.54)	0.88* (1.80)	0.66 (1.56)	0.7 (1.56)	0.98** (2.37)
<i>Passive share (x100)</i>	-0.01 (-0.03)	0.07 (0.18)	-0.11 (-0.24)	0.01 (0.03)	-0.22 (-0.49)
<i>Independent Institution</i>	-0.05 (-0.17)	-0.15 (-0.62)	-0.07 (-0.29)	-0.19 (-0.81)	0.01 (0.04)
<i>HQ country norms</i>	1.28 (1.34)	1.59 (1.50)	2.48*** (3.14)	2.12** (2.16)	1.46 (1.00)
Respondent Position FE	Yes	Yes	Yes	Yes	Yes
Distribution Channel FE	Yes	Yes	Yes	Yes	Yes
Obs.	361	370	370	370	326
Pseudo R <sup>2</sup>	0.06	0.05	0.09	0.07	0.05

**Table 4: Evaluations of Current Practice of Climate Risk Disclosure**

This table reports survey responses to questions on different aspects of the current climate risk disclosure practice (Question B3). Respondents were asked to indicate their agreement with different statements on a scale of one (“strongly disagree”) through five (“strongly agree”). Column (1) presents the percentage of respondents indicating strong agreement with a statement. Column (2) reports the mean score, where higher values correspond to stronger agreement. Column (3) reports the number of respondents. Column (4) reports the results of a *t*-test of the null hypothesis that each mean score is equal to 3 (neither agree nor disagree). \*\*\* indicates statistical significance at the 1% levels. Column (5) reports the results of a *t*-test of the null hypothesis that the mean score for a given reason is equal to the mean score for each of the other reasons, where significant differences at the 10% level are reported.

Views on climate risk disclosure		% with 5 (“strongly agree”)	Mean score	N	H <sub>0</sub> : Mean score = 3	Significant differences in mean score vs. rows
		(1)	(2)	(3)	(4)	(5)
(1)	Management discussions on climate risk are not sufficiently precise	20.8%	3.78	413	***	1-4, 7
(2)	Firm-level quantitative information on climate risk is not sufficiently precise	19.4%	3.77	413	***	1-4
(3)	Standardized and mandatory reporting on climate risk is necessary	26.9%	3.91	413	***	4-7
(4)	There should be more standardization across markets in climate-related financial disclosure	27.4%	3.92	412	***	4-7
(5)	Standardized disclosure tools and guidelines are currently not available	21.3%	3.64	413	***	1-3, 5-6
(6)	Mandatory disclosure forms are not sufficiently informative regarding climate risk	17.8%	3.70	411	***	1-3, 5
(7)	Investors should demand that portfolio firms disclose their exposure to climate risk	27.6%	3.90	413	***	4-7

**Table 5: Explaining Views on Current Practice of Climate Risk Disclosure**

This table reports logit regressions explaining investors' views on the current climate risk disclosure practice (Question B3). Respondents could indicate their agreement with different statements on a scale of one ("strongly agree") through five ("strongly disagree"). The dependent variables are dummy variables that equal one if a respondent indicated strong agreement with a statement on the current disclosure practice, and zero otherwise. We use the following independent variables: *Climate risk materiality* (larger numbers reflect greater perceived importance); *Medium horizon*; *Long horizon*; *Assets under management*; *ESG share*; *Passive share*; *Independent institution*; and *HQ country norms*. Detailed variable definitions are in the Data Appendix. *t*-statistics (reported in parentheses) are based on standard errors that are clustered at the investor-country level. \*\*\*, \*\*, \* indicate significance levels of 1%, 5%, and 10%, respectively.

	<i>Management discussions imprecise</i>	<i>Quant. information imprecise</i>	<i>Stand. and mandatory reporting necessary</i>	<i>More standardization</i>	<i>Disclosure tools not available</i>	<i>Disclosure forms not informative</i>	<i>Demand more disclosure</i>
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<i>Climate risk materiality</i>	0.65** (2.34)	0.47** (2.28)	0.55*** (3.73)	0.81*** (3.98)	0.59* (1.90)	0.51*** (2.60)	0.90*** (3.88)
<i>Medium horizon</i>	0.83 (0.95)	-0.37 (-0.46)	0.64 (0.79)	0.14 (0.15)	0.58 (0.84)	-0.58 (-0.83)	-0.65 (-0.72)
<i>Long horizon</i>	1.08 (1.26)	0.12 (0.16)	0.75 (1.00)	0.18 (0.34)	0.57 (1.04)	-0.69 (-0.88)	-0.99 (-1.20)
<i>Assets under management</i>	0.11 (1.20)	0.02 (0.16)	-0.13 (-1.44)	-0.08 (-0.85)	0.23* (1.81)	0.15*** (3.46)	-0.04 (-0.94)
<i>ESG share (x100)</i>	1.67*** (3.73)	1.01** (2.14)	1.47*** (3.15)	0.45 (0.96)	1.19** (2.21)	1.14*** (2.78)	0.32 (0.52)
<i>Passive share (x100)</i>	-0.46 (-0.71)	0.41 (1.04)	0.67 (1.01)	-0.00 (-0.01)	0.63 (1.32)	-0.65 (-0.99)	0.80 (1.26)
<i>Independent institution</i>	0.29 (0.51)	0.11 (0.35)	-0.30 (-1.55)	-0.42 (-1.25)	0.53** (2.20)	0.33 (1.23)	-0.14 (-1.04)
<i>HQ country norms</i>	2.49 (1.38)	-1.38 (-0.82)	-0.16 (-0.12)	-0.80 (-0.53)	0.55 (0.32)	0.35 (0.20)	0.06 (0.04)
Respondent Position FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Distribution Channel FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	369	369	369	369	369	369	369
Pseudo R <sup>2</sup>	0.13	0.09	0.11	0.11	0.10	0.11	0.15

**Table 6: Climate Risk Disclosure and Climate Risk Mispricing**

This table reports OLS regressions explaining perceptions of climate risk mispricing. We use two dependent variables to capture the respondents' views on the mispricing of climate risks (Question D1). *Climate risk underpricing* averages positive mispricing scores (negative scores are set to zero). The variable ranges between plus two (strong average overvaluation) and zero (no average overvaluation). *Climate risk mispricing* averages the absolute values of all mispricing scores across all industries. We use the following independent variables: *Demand more disclosure* equals one if a respondent indicated strong agreement to the statement that investors should demand that portfolio firms disclose their exposure to climate risk, and zero otherwise (Question B3). *Quantitative information imprecise* equals one if a respondent indicated strong agreement to the statement that firm-level quantitative information on climate risk is not sufficiently precise, and zero otherwise (Question B3). *Management discussions imprecise* equals one if a respondent indicated strong agreement to the statement that management discussions on climate risk are not sufficiently precise, and zero otherwise (Question B3). We additionally control for: *Climate risk materiality* (bigger numbers reflect greater perceived importance); *Medium horizon*; *Long horizon*; *Assets under management*; *ESG share*; *Passive share*; *Independent institution*; and *HQ country norms*. Detailed variable definitions are in the Data Appendix. *t*-statistics (reported in parentheses) are based on standard errors that are clustered at the investor-country level. \*\*\*, \*\*, \* indicate significance levels of 1%, 5%, and 10%, respectively.

	<i>Climate risk underpricing</i>			<i>Climate risk mispricing</i>		
	Average across all sectors			Average across all sectors		
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Demand more disclosure</i>	0.20*** (4.29)			0.16*** (3.28)		
<i>Quantitative information imprecise</i>		0.24** (2.84)			0.24*** (4.79)	
<i>Management discussions imprecise</i>			0.22*** (3.53)			0.19*** (3.98)
<i>Climate risk materiality</i>	-0.01 (-0.43)	-0.01 (-0.14)	-0.01 (-0.16)	0.02 (0.73)	0.02 (0.64)	0.02 (0.70)
<i>Medium horizon</i>	-0.03 (-0.27)	-0.04 (-0.30)	-0.07 (-0.54)	0.01 (0.12)	0.01 (0.06)	-0.02 (-0.15)
<i>Long horizon</i>	-0.00 (-0.04)	-0.04 (-0.39)	-0.06 (-0.54)	0.03 (0.28)	-0.01 (-0.05)	-0.02 (-0.18)
<i>Assets under management</i>	0.03 (1.59)	0.03 (1.34)	0.03 (1.36)	0.00 (0.06)	0.00 (0.00)	-0.00 (-0.17)
<i>ESG share (x100)</i>	0.29*** (3.60)	0.28*** (3.09)	0.26** (2.48)	0.19*** (3.01)	0.18** (2.52)	0.16* (2.03)
<i>Passive share (x100)</i>	-0.02 (-0.21)	-0.00 (-0.05)	0.01 (0.08)	-0.05 (-0.49)	-0.03 (-0.34)	-0.02 (-0.18)
<i>Independent institution</i>	-0.03 (-0.47)	-0.04 (-0.58)	-0.05 (-0.82)	-0.03 (-0.49)	-0.04 (-0.59)	-0.04 (-0.82)
<i>HQ country norms</i>	-0.20 (-1.63)	-0.16* (-1.82)	-0.29* (-2.10)	-0.30* (-2.11)	-0.26 (-1.68)	-0.37** (-2.25)
Respondent Position FE	Yes	Yes	Yes	Yes	Yes	Yes
Distribution Channel FE	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	343	343	343	343	343	343
Adjusted R <sup>2</sup>	0.06	0.07	0.06	0.03	0.05	0.03

**Table 7: Recent Trends in Climate Risk Disclosure**

This table reports logit regressions explaining recent trends in climate risk disclosure. We use two dependent variables. *Carbon footprint* equals one if a respondent discloses or plans to disclose the overall carbon footprint of their portfolio, and zero if the investor does not (Question B2). *TCFD* equals one if a respondent engages or plans to engage portfolio firms to report according to the recommendations of the Task Force on Climate related Financial Disclosures (Question E5), and zero otherwise. We use the following independent variables: *Climate risk materiality*; *Medium horizon*; *Long horizon*; *Assets under management*; *ESG share*; *Passive share*; *Independent institution*; and *HQ country norms*. Detailed variable definitions are in the Data Appendix. *t*-statistics (reported in parentheses) are based on standard errors that are clustered at the investor-country level. \*\*\*, \*\*, \* indicate significance levels of 1%, 5%, and 10%, respectively.

	<i>Carbon footprint</i>	<i>TCFD</i>
	(1)	(2)
<i>Climate risk materiality</i>	0.31*** (3.71)	0.23* (1.69)
<i>Medium horizon</i>	-0.72* (-1.87)	-0.21 (-0.44)
<i>Long horizon</i>	-1.03* (-1.79)	-0.24 (-0.61)
<i>Assets under management</i>	0.28* (1.73)	0.04 (0.23)
<i>ESG share (x100)</i>	1.07*** (2.81)	2.36*** (2.95)
<i>Passive share (x100)</i>	1.00 (0.95)	0.23 (0.46)
<i>Independent institution</i>	0.29 (1.15)	-0.08 (-0.35)
<i>HQ country norms</i>	0.62 (0.36)	6.75*** (4.81)
Respondent Position FE	Yes	Yes
Distribution Channel FE	Yes	Yes
Obs.	306	275
Pseudo R <sup>2</sup>	0.07	0.11

**Table 8: Recent Disclosure Trends and Assessment of Climate Risk Disclosure**

This table reports logit regressions explaining investors' views on the current climate risk disclosure practice (Question B3). We use four dependent variables that reflect the respondents' agreement to different statements on a scale of one ("strongly agree") through five ("strongly disagree"). The four dependent variables are dummy variables that equal one if a respondent indicated strong agreement with a statement on the current disclosure practice, and zero otherwise. We use the following independent variables: *Carbon footprint* is a dummy variable equal to one if a respondent discloses or plans to disclose the overall carbon footprint of their portfolio and zero otherwise (Question B2). *TCFD* is a dummy variable equal to one if a respondent engages or plans to engage portfolio firms to report according to the recommendations of the Task Force on Climate related Financial Disclosures (Question E5). The following independent variables are also included: *Medium horizon*; *Long horizon*; *Assets under management*; *ESG share*; *Passive share*; *Independent institution*; and *HQ country norms*. Detailed variable definitions are in the Data Appendix. *t*-statistics (reported in parentheses) are based on standard errors that are clustered at the investor-country level. \*\*\*, \*\*, \* indicate significance levels of 1%, 5%, and 10%, respectively.

	<i>Demand more disclosure</i>		<i>Quantitative information imprecise</i>		<i>Management discussions imprecise</i>		<i>Standardized and mandatory reporting necessary</i>	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>Carbon footprint</i>	1.25** (2.37)		0.40 (1.08)		0.44* (1.88)		0.53** (2.01)	
<i>TCFD</i>		0.87** (2.22)		0.51 (1.27)		0.82 (1.62)		0.96*** (3.10)
<i>Medium horizon</i>	-0.38 (-0.48)	-0.39 (-0.49)	-0.60 (-0.73)	-0.19 (-0.23)	0.73 (0.80)	0.79 (0.90)	0.68 (0.91)	0.77 (0.98)
<i>Long horizon</i>	-0.13 (-0.17)	-0.39 (-0.48)	0.14 (0.13)	0.33 (0.34)	1.52* (1.67)	1.49* (1.85)	1.28 (1.64)	1.25 (1.40)
<i>Assets under management</i>	-0.11 (-1.20)	-0.06 (-0.69)	-0.01 (-0.08)	-0.08 (-0.75)	0.09 (1.20)	0.01 (0.14)	-0.20** (-2.13)	-0.23** (-2.47)
<i>ESG share (x100)</i>	0.48 (0.87)	0.89* (1.89)	0.80* (1.94)	0.77 (1.55)	1.77*** (5.29)	1.87*** (2.84)	1.34*** (3.22)	1.23*** (2.91)
<i>Passive share (x100)</i>	0.71 (0.74)	0.50 (0.66)	1.04** (2.27)	0.30 (0.79)	-0.04 (-0.09)	-0.20 (-0.31)	0.99* (1.90)	0.37 (0.59)
<i>Independent institution</i>	-0.12 (-0.58)	-0.11 (-0.58)	0.17 (0.66)	-0.10 (-0.37)	0.30 (0.54)	0.31 (0.58)	-0.23 (-1.02)	-0.25 (-1.33)
<i>HQ country norms</i>	-1.71 (-0.67)	-1.99 (-1.52)	-2.69 (-1.53)	-2.75* (-1.75)	1.55 (0.51)	0.62 (0.19)	-1.22 (-0.72)	-1.52 (-1.17)
Respondent Position FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Distribution Channel FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	305	292	309	292	305	292	309	292
Pseudo R <sup>2</sup>	0.10	0.12	0.08	0.06	0.08	0.11	0.09	0.09

**Table 9: Carbon Emission Disclosure and Institutional Ownership**

This table reports OLS regressions explaining the effect of institutional ownership on the propensity of disclosing scope 1 carbon emissions to CDP. The dependent variable *Scope 1 disclosure* equals one if a firm discloses Scope 1 carbon emissions to CDP in a given year, and zero otherwise. The independent variable *Total IO* measures the fraction of a firm's equity owned by institutional investors. *High-norm IO* and *Low-norm IO* are components of *Total IO* and measure the fraction of a firm's equity owned by institutional investors in high social norm countries and low social norm countries, respectively. Following Dyck et al. (2019), we measure a country's social norms concerning environmental issues with the Environmental Performance Index (EPI) obtained from Yale Center of Environmental Law and Center for international Earth Science Information Network. And we define a country to be in the high-norm group if its EPI is higher than the median in that year and in the low-norm group otherwise. By construction,  $Total\ IO = High\text{-}norm\ IO + Low\text{-}norm\ IO$ . The sample includes all firms contacted by CDP and the sample period covers the years 2009 to 2017. *t*-statistics (reported in parentheses) are based on standard errors that are clustered at the country level. \*\*\*, \*\*, \* indicate significance levels of 1%, 5%, and 10%, respectively.

	<i>Scope 1 disclosure</i>							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>Total IO</i>	0.16** (2.10)		0.16* (2.03)		0.17** (2.39)		0.17** (2.35)	
<i>High-norm IO</i>		0.35*** (3.91)		0.35*** (3.89)		0.30*** (3.75)		0.30*** (3.86)
<i>Low-norm IO</i>		-0.03 (-0.68)		-0.03 (-0.68)		0.04 (0.80)		0.03 (0.70)
<i>Log(Assets)</i>	0.07*** (6.31)	0.07*** (8.03)	0.07*** (5.72)	0.07*** (7.25)	0.06*** (5.74)	0.07*** (6.76)	0.06*** (5.73)	0.07*** (6.76)
<i>Dividends/Net income</i>	0.02*** (3.64)	0.02*** (3.05)	0.02*** (3.98)	0.02*** (3.48)	0.02*** (3.78)	0.02*** (3.43)	0.02*** (3.92)	0.02*** (3.55)
<i>Debt/Assets</i>	-0.04* (-1.92)	-0.06** (-2.50)	0.00 (0.09)	-0.02 (-0.63)	0.02 (0.83)	0.00 (0.12)	0.01 (0.59)	-0.00 (-0.10)
<i>EBIT/Assets</i>	-0.14*** (-3.65)	-0.10** (-2.41)	-0.10** (-2.28)	-0.06 (-1.41)	-0.05 (-1.31)	-0.04 (-1.03)	-0.06 (-1.46)	-0.05 (-1.20)
<i>CapEx/Assets</i>	-0.02 (-0.14)	0.01 (0.06)	-0.18 (-1.52)	-0.14 (-1.22)	-0.10 (-0.87)	-0.10 (-0.88)	-0.09 (-0.75)	-0.09 (-0.75)
<i>Book-to-market</i>	-0.06*** (-4.25)	-0.06*** (-5.43)	-0.06*** (-4.50)	-0.05*** (-5.62)	-0.03*** (-3.36)	-0.03*** (-4.03)	-0.04*** (-3.84)	-0.04*** (-4.50)
<i>Constant</i>	-0.79*** (-6.30)	-0.85*** (-8.62)	-0.81*** (-5.52)	-0.87*** (-7.46)	-0.78*** (-5.69)	-0.82*** (-7.01)	-0.78*** (-5.63)	-0.83*** (-6.95)
Industry FE	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	No	No	No	No	Yes	Yes	Yes	Yes
Industry-Year FE	No	No	No	No	No	No	Yes	Yes
Obs.	28,347	28,347	28,347	28,347	28,347	28,347	28,338	28,338
adj. R-sq.	0.14	0.16	0.15	0.17	0.21	0.22	0.21	0.22

**Table 10: Emission Verification of Carbon Emissions and Institutional Ownership**

This table reports OLS regressions explaining the effect of institutional ownership on the propensity of obtaining third party verification for reported emissions to CDP. We create indicator variables for Scope 1, Scope 2, and Scope 3 Verification equal to one if a firm's emissions are verified by a third party, and zero otherwise. *Emission verification* equals to the sum of these three variables and is meant to capture the overall third party verification of a firm's emissions. The independent variable *Total IO* measures the fraction of a firm's equity owned by institutional investors. *High-norm IO* and *Low-norm IO* are components of *Total IO* and measure the fraction of a firm's equity owned by institutional investors in high social norm countries and low social norm countries, respectively. Following Dyck et al. (2019), we measure a country's social norms concerning environmental issues with the Environmental Performance Index (EPI) obtained from Yale Center of Environmental Law and Center for international Earth Science Information Network. And we define a country to be in the high-norm group if its EPI is higher than the median in that year and in the low-norm group otherwise. By construction,  $Total\ IO = High\text{-}norm\ IO + Low\text{-}norm\ IO$ . The sample includes all firms contacted by CDP and the sample period covers the years 2009 to 2017. *t*-statistics (reported in parentheses) are based on standard errors that are clustered at the country level. \*\*\*, \*\*, \* indicate significance levels of 1%, 5%, and 10%, respectively.

	<i>Emission verification</i>							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>Total IO</i>	0.12 (0.68)		0.12 (0.69)		0.13 (0.86)		0.13 (0.83)	
<i>High-norm IO</i>		0.53** (2.68)		0.53*** (2.78)		0.38** (2.14)		0.40** (2.24)
<i>Low-norm IO</i>		-0.30*** (-3.53)		-0.30*** (-3.20)		-0.12 (-1.23)		-0.14 (-1.40)
<i>Log(Assets)</i>	0.17*** (6.53)	0.18*** (8.48)	0.17*** (5.88)	0.18*** (7.52)	0.16*** (5.91)	0.17*** (6.97)	0.16*** (5.88)	0.17*** (6.98)
<i>Dividends/Net income</i>	0.04*** (3.60)	0.03*** (2.91)	0.04*** (3.73)	0.04*** (3.14)	0.04*** (3.39)	0.04*** (3.05)	0.04*** (3.48)	0.04*** (3.12)
<i>Debt/Assets</i>	-0.07 (-1.36)	-0.11* (-2.02)	0.00 (0.00)	-0.04 (-0.65)	0.03 (0.60)	0.00 (0.07)	0.03 (0.48)	-0.00 (-0.07)
<i>EBIT/Assets</i>	-0.29*** (-2.74)	-0.20 (-1.61)	-0.25** (-2.54)	-0.17 (-1.55)	-0.15 (-1.50)	-0.13 (-1.26)	-0.17 (-1.66)	-0.15 (-1.42)
<i>CapEx/Assets</i>	-0.33 (-1.05)	-0.27 (-0.88)	-0.50 (-1.63)	-0.42 (-1.38)	-0.34 (-1.06)	-0.34 (-1.09)	-0.31 (-0.93)	-0.31 (-0.94)
<i>Book-to-market</i>	-0.15*** (-4.66)	-0.15*** (-5.89)	-0.15*** (-5.05)	-0.14*** (-6.30)	-0.09*** (-4.07)	-0.10*** (-4.68)	-0.10*** (-4.51)	-0.11*** (-5.21)
<i>Constant</i>	-1.99*** (-5.97)	-2.13*** (-8.04)	-2.05*** (-5.24)	-2.18*** (-6.91)	-1.98*** (-5.34)	-2.06*** (-6.44)	-1.98*** (-5.29)	-2.07*** (-6.40)
Industry FE	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	No	No	No	No	Yes	Yes	Yes	Yes
Industry-Year FE	No	No	No	No	No	No	Yes	Yes
Obs.	28,347	28,347	28,347	28,347	28,347	28,347	28,338	28,338
adj. R-sq.	0.13	0.15	0.14	0.16	0.19	0.19	0.19	0.19

Internet Appendix

for

Institutional Investors' Views and Preferences on Climate Risk Disclosure

Emirhan Ilhan

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## Internet Appendix A: Survey Instrument



**UNIVERSITÉ  
DE GENÈVE**



**Frankfurt School**  
of Finance & Management  
German Excellence. Global Relevance.

### Survey on Climate Risk

We are a team of professors from the University of Geneva, the Swiss Finance Institute, the University of Texas at Austin, and Frankfurt School of Finance & Management.

This survey seeks a better understanding of whether and how institutional investors incorporate **climate risk** when making investment decisions. The survey will take about **10 minutes**.

You can use this survey questionnaire or take the survey online at: [\[LINK\]](#)

We take the **confidentiality** of your responses very seriously. We **will not share your responses** with anyone, nor will individual firms or respondents be identified. Only aggregate data will be made public. We will not link the survey responses to any other data.

Thank you for participating in this survey. If you have any questions, please contact us.

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## GENERAL INFORMATION

**G1: How is the institution at which you work best described?**

- |   |  |
|---|--|
| <input type="checkbox"/> Public pension fund<br><input type="checkbox"/> Insurance company<br><input type="checkbox"/> Mutual fund management company<br><input type="checkbox"/> Asset manager (for pension funds, endowments, etc.)<br><input type="checkbox"/> Sovereign wealth fund<br><input type="checkbox"/> Other (please specify): _____ | <input type="checkbox"/> Private pension fund<br><input type="checkbox"/> Hedge fund<br><input type="checkbox"/> Private equity fund<br><input type="checkbox"/> Endowment, charity<br><input type="checkbox"/> Bank |
|---|--|

**G2: What is the typical holding period for investments in your portfolio, on average?**

- Short (less than 6 months)
- Medium (6 months to 2 years)
- Long (2 years to 5 years)
- Very long (more than 5 years)

**G3: What percentage of your portfolio is invested in fixed income versus equity securities?**

\_\_\_ % in fixed income  
 \_\_\_ % in equities

**G4: What percentage of your portfolio is invested actively versus passively?**

\_\_\_ % in active investments  
 \_\_\_ % in passive investments

**G5: What percentage of your portfolio incorporates Environmental, Social and Governance (ESG) issues? \_\_\_ %**

**G6: What is the total size of assets under management for your institution?**

- |  |  |
|--|--|
| <input type="checkbox"/> Less than \$1 billion<br><input type="checkbox"/> Between \$20 billion and \$50 billion<br><input type="checkbox"/> More than \$100 billion | <input type="checkbox"/> Between \$1 billion and \$20 billion<br><input type="checkbox"/> Between \$50 billion and \$100 billion |
|--|--|

**G7: In which country are your institution's headquarters based? \_\_\_\_\_**

**G8: What is your position?**

- |   |  |
|---|--|
| <input type="checkbox"/> Fund/Portfolio Manager<br><input type="checkbox"/> Investment Analyst/Strategist<br><input type="checkbox"/> Chief Investment Officer<br><input type="checkbox"/> CFO/COO/Chairman/Other Executive | <input type="checkbox"/> Chief Executive Officer<br><input type="checkbox"/> Executive/Managing Director<br><input type="checkbox"/> ESG/Responsible Investment Specialist<br><input type="checkbox"/> Other (please explain): _____ |
|---|--|

## PART A: IMPORTANCE OF CLIMATE RISK

**A1: Please rank the following six risks when making investments in portfolio firms from 1 to 6, where 1 is the most important to you and 6 the least important.**

- |  |   |
|--|---|
| Financial risk (earnings, leverage, payout policy, etc.) | □ |
| Operating risk (changes in demand, input costs, etc.)    | □ |
| Governance risk (board structure, executive pay, etc.)   | □ |
| Social risk (labor standards, human rights, etc.)        | □ |
| Climate risk   | □ |
| Other environmental risk (pollution, recycling, etc.)    | □ |





## Internet Appendix B: Additional Tables

### Internet Appendix Table 1: Summary Statistics

This table provides summary statistics for the analyses in Table 9 and Table 10. The sample period covers the years 2009 to 2017.

<b>Variable</b>	<b>Mean</b>	<b>STD</b>	<b>25th</b>	<b>Median</b>	<b>75th</b>	<b>Obs.</b>
<i>Scope 1 disclosure</i>	0.17	0.37				34,574
<i>Scope 2 disclosure</i>	0.16	0.37				34,574
<i>Scope 3 disclosure</i>	0.20	0.40				34,574
<i>Emission verification</i>	0.34	0.88				34,574
<i>Total IO</i>	0.27	0.26	0.08	0.17	0.37	34,574
<i>High-norm IO</i>	0.16	0.20	0.03	0.08	0.20	34,574
<i>Low-norm IO</i>	0.11	0.20	0.01	0.04	0.10	34,574
<i>Log(Assets)</i>	15.00	2.05	13.63	14.96	16.33	34,574
<i>Dividends/Net income</i>	0.38	0.73		0.26	0.52	34,232
<i>Debt/Assets</i>	0.44	0.20	0.30	0.44	0.58	29,035
<i>EBIT/Assets</i>	0.07	0.10	0.02	0.06	0.11	33,888
<i>CapEx/Assets</i>	0.05	0.05	0.01	0.03	0.06	34,355
<i>Book-to-market</i>	0.74	0.58	0.34	0.60	0.98	34,538

## Internet Appendix Table 2: Carbon Emissions and Scope 2 Disclosure

This table reports OLS regressions explaining the effect of institutional ownership on the propensity of disclosing scope 1 carbon emissions to CDP. The dependent variable *Scope 2 disclosure* equals one if a firm discloses Scope 1 carbon emissions to CDP in a given year, and zero otherwise. The independent variable *Total IO* measures the fraction of a firm's equity owned by institutional investors. *High-norm IO* and *Low-norm IO* are components of *Total IO* and measure the fraction of a firm's equity owned by institutional investors in high social norm countries and low social norm countries, respectively. Following Dyck et al. (2019), we measure a country's social norms concerning environmental issues with the Environmental Performance Index (EPI) obtained from Yale Center of Environmental Law and Center for international Earth Science Information Network. And we define a country to be in the high-norm group if its EPI is higher than the median in that year and in the low-norm group otherwise. By construction,  $Total\ IO = High\text{-}norm\ IO + Low\text{-}norm\ IO$ . The sample includes all firms contacted by CDP and the sample period covers the years 2009 to 2017. *t*-statistics (reported in parentheses) are based on standard errors that are clustered at the country level. \*\*\*, \*\*, \* indicate significance levels of 1%, 5%, and 10%, respectively.

	<i>Scope 2 disclosure</i>							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>Total IO</i>	0.16** (2.16)		0.16** (2.06)		0.17** (2.41)		0.17** (2.38)	
<i>High-norm IO</i>		0.34*** (3.97)		0.34*** (3.95)		0.30*** (3.83)		0.30*** (3.96)
<i>Low-norm IO</i>		-0.02 (-0.46)		-0.02 (-0.51)		0.03 (0.77)		0.03 (0.66)
<i>Log(Assets)</i>	0.06*** (5.96)	0.07*** (7.42)	0.06*** (5.43)	0.07*** (6.76)	0.06*** (5.45)	0.06*** (6.41)	0.06*** (5.42)	0.06*** (6.39)
<i>Dividends/Net income</i>	0.02*** (3.82)	0.02*** (3.21)	0.02*** (4.17)	0.02*** (3.67)	0.02*** (3.96)	0.02*** (3.59)	0.02*** (4.13)	0.02*** (3.73)
<i>Debt/Assets</i>	-0.03 (-1.38)	-0.05* (-1.97)	0.01 (0.46)	-0.01 (-0.20)	0.03 (1.18)	0.01 (0.47)	0.02 (0.93)	0.01 (0.25)
<i>EBIT/Assets</i>	-0.12*** (-3.09)	-0.09* (-1.99)	-0.09* (-1.97)	-0.05 (-1.16)	-0.05 (-1.14)	-0.04 (-0.86)	-0.06 (-1.29)	-0.04 (-1.02)
<i>CapEx/Assets</i>	-0.03 (-0.19)	-0.00 (-0.00)	-0.17 (-1.46)	-0.14 (-1.17)	-0.11 (-0.90)	-0.11 (-0.91)	-0.10 (-0.79)	-0.10 (-0.79)
<i>Book-to-market</i>	-0.06*** (-4.19)	-0.05*** (-5.23)	-0.06*** (-4.55)	-0.05*** (-5.60)	-0.03*** (-3.36)	-0.03*** (-4.02)	-0.04*** (-3.83)	-0.04*** (-4.45)
<i>Constant</i>	-0.76*** (-6.08)	-0.82*** (-8.15)	-0.79*** (-5.33)	-0.85*** (-7.09)	-0.76*** (-5.49)	-0.80*** (-6.76)	-0.76*** (-5.41)	-0.80*** (-6.68)
Industry FE	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	No	No	No	No	Yes	Yes	Yes	Yes
Industry-Year FE	No	No	No	No	No	No	Yes	Yes
Obs.	28,347	28,347	28,347	28,347	28,347	28,347	28,338	28,338
adj. R-sq.	0.13	0.15	0.15	0.17	0.20	0.21	0.20	0.21

### Internet Appendix Table 3: Carbon Emissions and Scope 3 Disclosure

This table reports OLS regressions explaining the effect of institutional ownership on the propensity of disclosing scope 1 carbon emissions to CDP. The dependent variable *Scope 3 disclosure* equals one if a firm discloses Scope 1 carbon emissions to CDP in a given year, and zero otherwise. The independent variable *Total IO* measures the fraction of a firm's equity owned by institutional investors. *High-norm IO* and *Low-norm IO* are components of *Total IO* and measure the fraction of a firm's equity owned by institutional investors in high social norm countries and low social norm countries, respectively. Following Dyck et al. (2019), we measure a country's social norms concerning environmental issues with the Environmental Performance Index (EPI) obtained from Yale Center of Environmental Law and Center for international Earth Science Information Network. And we define a country to be in the high-norm group if its EPI is higher than the median in that year and in the low-norm group otherwise. By construction,  $Total\ IO = High\text{-}norm\ IO + Low\text{-}norm\ IO$ . The sample includes all firms contacted by CDP and the sample period covers the years 2009 to 2017. *t*-statistics (reported in parentheses) are based on standard errors that are clustered at the country level. \*\*\*, \*\*, \* indicate significance levels of 1%, 5%, and 10%, respectively.

	<i>Scope 3 disclosure</i>							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>Total IO</i>	0.14*		0.13		0.14*		0.14*	
	(1.74)		(1.66)		(2.01)		(1.97)	
<i>High-norm IO</i>		0.32***		0.32***		0.28***		0.29***
		(3.58)		(3.58)		(3.47)		(3.59)
<i>Low-norm IO</i>		-0.04		-0.06*		0.00		-0.00
		(-1.40)		(-1.84)		(0.12)		(-0.08)
<i>Log(Assets)</i>	0.08***	0.08***	0.08***	0.08***	0.07***	0.08***	0.07***	0.08***
	(9.69)	(13.77)	(8.54)	(12.08)	(8.91)	(11.79)	(8.91)	(11.89)
<i>Dividends/Net income</i>	0.02***	0.02***	0.02***	0.02***	0.02***	0.02***	0.02***	0.02***
	(4.14)	(3.58)	(4.32)	(3.87)	(3.96)	(3.66)	(4.18)	(3.85)
<i>Debt/Assets</i>	-0.04*	-0.06**	0.01	-0.01	0.02	0.01	0.02	0.00
	(-1.71)	(-2.58)	(0.24)	(-0.45)	(1.07)	(0.36)	(0.84)	(0.12)
<i>EBIT/Assets</i>	-0.13***	-0.09**	-0.10***	-0.07*	-0.07*	-0.05	-0.08**	-0.06*
	(-4.27)	(-2.71)	(-3.19)	(-2.02)	(-1.84)	(-1.51)	(-2.06)	(-1.74)
<i>CapEx/Assets</i>	-0.06	-0.03	-0.14	-0.10	-0.09	-0.09	-0.07	-0.07
	(-0.49)	(-0.27)	(-1.25)	(-0.94)	(-0.75)	(-0.76)	(-0.56)	(-0.56)
<i>Book-to-market</i>	-0.06***	-0.06***	-0.06***	-0.06***	-0.03***	-0.03***	-0.04***	-0.04***
	(-4.93)	(-6.10)	(-4.99)	(-5.92)	(-3.56)	(-4.21)	(-4.07)	(-4.63)
<i>Constant</i>	-0.91***	-0.97***	-0.96***	-1.02***	-0.91***	-0.96***	-0.92***	-0.97***
	(-8.78)	(-13.05)	(-7.45)	(-10.79)	(-7.95)	(-10.94)	(-7.81)	(-10.78)
Industry FE	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	No	No	No	No	Yes	Yes	Yes	Yes
Industry-Year FE	No	No	No	No	No	No	Yes	Yes
Obs.	28,347	28,347	28,347	28,347	28,347	28,347	28,338	28,338
adj. R-sq.	0.15	0.17	0.16	0.18	0.23	0.24	0.24	0.24

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