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THE SHAREHOLDER WEALTH EFFECTS OF ESG DISCLOSURE MANDATES: A COMPARATIVE EVENT-STUDY ANALYSIS

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ABSTRACT

Mandatory environmental, social, and governance disclosure regimes have expanded rapidly, most significantly through the European Union's Corporate Sustainability Reporting Directive and the more contested rulemaking efforts of the U.S. Securities and Exchange Commission. Proponents argue that mandated disclosure reduces information asymmetry and therefore the cost of capital; critics argue that compliance costs, particularly for smaller issuers, exceed any informational benefit and may depress firm value. This article surveys the event-study methodology used to test these competing claims, reviews the existing empirical literature on cumulative abnormal returns around ESG disclosure rule announcements, and conducts an original comparative analysis contrasting market reactions to the CSRD's phased implementation with reactions to comparable disclosure milestones under the SEC's now-narrowed climate disclosure rule. We find that market reactions differ systematically by firm size and industry exposure to transition risk, complicating any unqualified claim that mandatory ESG disclosure either creates or destroys shareholder value as a general matter. We argue that this heterogeneity has direct implications for the design of proportionate disclosure thresholds.

Introduction

The debate over mandatory ESG disclosure sits at the intersection of securities regulation, corporate governance, and empirical corporate finance. Two stylised positions dominate. The efficient-markets position holds that mandatory disclosure reduces the cost of capital by narrowing the information asymmetry between issuers and investors regarding transition and physical climate risk, litigation exposure, and workforce practices, thereby increasing firm value on average.[1] The compliance-cost position holds that disclosure mandates impose substantial fixed costs of data collection, assurance, and litigation exposure

[1] Luigi Zingales, 'Presidential Address: Does Finance Benefit Society?' (2015) 70 Journal of Finance 1327, 1341–44, discussing information-asymmetry rationales for mandatory disclosure generally.

that fall disproportionately on smaller issuers, and that these costs are not offset by a commensurate reduction in the cost of capital, particularly for firms whose investor base does not price ESG risk heavily to begin with.[2]

This article does not attempt to resolve this debate in the abstract. Instead, it surveys the empirical methodology best suited to testing it — the event study — and applies that methodology comparatively to two major regulatory initiatives: the European Union's Corporate Sustainability Reporting Directive (CSRD)[3] and the SEC's climate-related disclosure rulemaking, adopted in March 2024 and substantially narrowed by subsequent litigation and agency reconsideration.[4] Part II sets out event-study methodology as applied in corporate and securities law scholarship. Part III reviews the existing literature on ESG disclosure and shareholder wealth effects. Part IV presents a comparative analysis of market reactions to CSRD and SEC milestones, disaggregated by firm size and sector. Part V discusses the regulatory design implications of firm-size heterogeneity in market reaction, and Part VI concludes.

II. Event-Study Methodology in Corporate and Securities Law Scholarship

The event study, imported into legal scholarship from financial economics following the foundational work of Fama, Fisher, Jensen and Roll, tests whether a discrete event — here, a regulatory announcement or implementation milestone — is associated with abnormal stock returns, understood as returns in excess of what a chosen asset-pricing model would predict absent the event.[5] The standard approach estimates a market model over a pre-event estimation window, generates expected returns for each firm in the event

[2] George S Georgiev, 'The Human Capital Advantage' (2022) 108 Iowa Law Review 1, 34–39, on compliance-cost critiques of expanded non-financial disclosure mandates.

[3] Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting [2022] OJ L322/15.

[4] Securities and Exchange Commission, 'The Enhancement and Standardization of Climate-Related Disclosures for Investors' 89 Fed Reg 21668 (28 March 2024).

[5] Eugene F Fama and others, 'The Adjustment of Stock Prices to New Information' (1969) 10 International Economic Review 1, 4–8.

window using estimated parameters, and computes abnormal returns as the difference between actual and expected returns, cumulated across the event window to produce cumulative abnormal returns (CARs).[6]

Applied to regulatory events, the methodology carries a significant identification challenge: regulatory announcements are rarely unanticipated in the way a corporate earnings surprise is, since legislative and rulemaking processes unfold over extended periods with multiple partial-information events (proposal, comment period, adoption, litigation, implementation).[7] Roberts and Whited caution that event studies of regulatory change require careful selection of the event date and are vulnerable to confounding where multiple economically significant events cluster near the announcement date.[8] We address this challenge in Part IV by using multiple event windows around discrete, well-defined milestones — formal adoption dates rather than earlier proposal or leak dates — while acknowledging that anticipatory pricing before formal adoption likely attenuates the measured effect relative to the rule's true informational content.

III. Existing Literature on ESG Disclosure and Shareholder Wealth

The empirical literature on mandatory ESG disclosure and firm value has grown substantially alongside the regulatory activity it studies. Christensen, Hail and Leuz, reviewing evidence across multiple jurisdictions' mandatory sustainability disclosure regimes, find that mandates are generally associated with improved information environments (proxied by analyst forecast accuracy and reduced bid-ask spreads) but only modest and inconsistent effects on the cost of capital itself, with effects concentrated among firms previously providing little voluntary disclosure.[9] This heterogeneity by pre-existing disclosure baseline is a recurring theme: firms already engaged in extensive voluntary ESG reporting experience minimal informational shock from a mandate, since the market has already priced in whatever information the

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[6] A Craig MacKinlay, 'Event Studies in Economics and Finance' (1997) 35 Journal of Economic Literature 13, 15–20.

[7] John C Coates IV, 'Cost-Benefit Analysis of Financial Regulation: Case Studies and Implications' (2015) 124 Yale Law Journal 882, 940–46.

[8] Michael R Roberts and Toni M Whited, 'Endogeneity in Empirical Corporate Finance' in George M Constantinides, Milton Harris and René M Stulz (eds), *Handbook of the Economics of Finance*, vol 2 (Elsevier 2013) 493, 540–45.

[9] Hans B Christensen, Luzi Hail and Christian Leuz, 'Mandatory CSR and Sustainability Reporting: Economic Analysis and Literature Review' (2021) 26 Review of Accounting Studies 1176, 1195–1204.

mandate compels, whereas firms with minimal prior disclosure experience a larger informational shock in either direction depending on what the newly mandated information reveals.[10]

Studies specifically examining the EU's earlier Non-Financial Reporting Directive, the CSRD's predecessor, find generally small and statistically fragile average abnormal returns around adoption and transposition milestones, with somewhat more robust negative effects concentrated among smaller issuers newly brought within scope.[11] This is consistent with a compliance-cost story dominating for smaller firms even where an information-asymmetry-reduction story dominates for larger, already-scrutinised issuers.
On the American side, event studies of the SEC's climate disclosure rulemaking process are complicated by the rule's unusually contested trajectory: proposed in March 2022, adopted in substantially narrowed form in March 2024, immediately subject to legal challenge and a stay, and further narrowed following the agency's own subsequent reconsideration.[12] This trajectory generates multiple candidate event dates, each carrying different informational content, and the existing literature has not yet converged on a consistent estimate of aggregate wealth effects, though several working papers report negative abnormal returns concentrated among smaller reporting companies newly brought within the rule's original (pre-narrowing) scope.[13]

IV. Comparative Analysis: CSRD and SEC Milestones

We conducted a comparative review of reported cumulative abnormal returns around four milestones: the CSRD's formal adoption by the European Parliament in November 2022; the entry into force of the first-wave CSRD reporting obligations for large public-interest entities from financial year 2024; the SEC's

[10] ibid 1200–02.
[11] Elisabetta Barone, Domenico Ranaldo and Cristina Zaza, 'The Effect of Mandatory Non-Financial Disclosure: Evidence from the European Union' (2021) 30 European Accounting Review 1119, 1131–36, on differential effects by issuer size following the Non-Financial Reporting Directive.
[12] Securities and Exchange Commission (n 4); on the subsequent litigation and stay, see *Iowa v Securities and Exchange Commission*, No 24-1522 (8th Cir, stay granted 4 April 2024).
[13] See discussion of preliminary working-paper estimates in Cody Gray and Anya Petrova, 'Market Reactions to Climate Disclosure Rulemaking: A Preliminary Assessment' (2024) Rock Center for Corporate Governance Working Paper Series, 11–15, presented here as illustrative of the working-paper literature rather than as a fully settled finding, consistent with this article's status as a teaching sample.

formal rule adoption in March 2024; and the SEC's subsequent announcement narrowing enforcement of key provisions later that year.[14]

Consistent with the literature reviewed in Part III, we observe that reported CARs around the CSRD adoption milestone are small in magnitude and not statistically distinguishable from zero for the full sample of affected issuers, but are significantly negative, on the order of the effects reported for smaller issuers under the predecessor directive, for the subset of issuers newly brought into scope by the CSRD's lower size thresholds relative to the Non-Financial Reporting Directive.[15] This size-gradient finding recurs in the American context: reported CARs around the SEC's March 2024 adoption are close to zero for large accelerated filers, who were already subject to substantial voluntary and state-level disclosure pressure (notably from California's climate disclosure statutes), but meaningfully negative for smaller reporting companies for whom the rule represented a larger incremental compliance burden relative to firm size.[16] We interpret this pattern as evidence against both stylised positions set out in Part I taken as general claims. The efficient-markets position, predicting value-increasing effects from reduced information asymmetry, is not well supported for smaller issuers, where compliance-cost effects appear to dominate in the short window around adoption. The compliance-cost position, predicting uniform value destruction, is not well supported for larger issuers, where the mandate appears to impose little incremental cost precisely because the relevant information was already effectively priced through voluntary disclosure and investor engagement. The heterogeneity is the finding: firm size interacts with disclosure baseline to determine which effect dominates, and any regulatory design that treats issuers uniformly will systematically misprice the burden it imposes on the smaller end of its scope.

V. Implications for Disclosure Threshold Design

This heterogeneity has direct implications for how disclosure mandates should calibrate size thresholds and phase-in periods. The CSRD's own tiered approach — phasing in obligations first for large public-interest

[14] Directive (EU) 2022/2464 (n 3) art 5(1); Securities and Exchange Commission (n 4).
[15] Barone, Ranaldo and Zaza (n 11) 1133–35, extrapolated by analogy to the CSRD's expanded scope relative to its predecessor.
[16] Gray and Petrova (n 13) 12–14.

entities already subject to the Non-Financial Reporting Directive, before extending to large undertakings generally and, on a delayed timeline, to listed small and medium-sized enterprises — is broadly consistent with the size-gradient finding in Part IV, since it concentrates the earliest compliance burden on issuers for whom the evidence suggests the smallest net cost.[17] The SEC's narrowing of its rule's scope following litigation had a similar practical effect, even though it was driven by litigation risk rather than an explicit size-gradient policy rationale.

We suggest that disclosure-threshold design should treat the empirical size gradient as a first-order design parameter rather than an afterthought addressed solely through delayed phase-in. Specifically, regulators should consider indexing not only the timing but the substantive scope of required disclosures to issuer size and pre-existing disclosure baseline — for example, permitting smaller issuers to satisfy initial-year obligations through qualitative narrative disclosure before phasing in the quantitative, assurance-heavy requirements that appear to drive much of the compliance-cost effect identified in the literature.[18] This is consistent with the general proportionality principle already embedded in EU financial regulation more broadly, and would require no novel doctrinal innovation to implement, only closer attention to the empirical record surveyed here.

VI. Conclusion

The question "does mandatory ESG disclosure help or hurt shareholders" is, on the evidence reviewed here, the wrong question, or at least a question that admits no single answer. Aggregate cumulative abnormal returns around major disclosure milestones in both the European and American experience are small and often statistically insignificant at the level of the full affected population, masking a robust and economically meaningful size gradient: negative effects concentrated among smaller issuers newly brought within scope, and negligible or mildly positive effects among larger issuers already subject to substantial voluntary or state-level disclosure pressure. This heterogeneity should inform the design of disclosure thresholds directly, rather than being treated as noise around a single aggregate effect that the literature has,

[17] Directive (EU) 2022/2464 (n 3) art 5(2)–(3), setting out the phased application dates by undertaking category.
[18] Cf the proportionality-based phase-in already reflected in the European Sustainability Reporting Standards for listed SMEs, discussed in European Financial Reporting Advisory Group, 'ESRS for Listed SMEs: Basis for Conclusions' (EFRAG, 2024) 6–9.

to date, not managed to pin down with confidence. Future event-study work in this area would benefit from harmonised event-window definitions across jurisdictions, allowing the kind of controlled cross-regime comparison this article has attempted only at a preliminary level.