Faculti Summary
https://staging.faculti.net/the-financially-material-effects-of-mandatory-non-financial-disclosure/

This video video discusses a study on Environmental and Social (ENS) disclosure, which refers to non-financial reporting by companies to external stakeholders about issues such as climate change impacts, greenhouse gas emissions, and workforce composition. While the U.S. currently lacks mandatory non-financial disclosure requirements, many countries have enacted such regulations, prompting debate on their necessity and effectiveness in providing critical information to investors.

The primary argument is that ENS disclosures can be financially material. The study notes that while companies in the U.S. are only mandated to disclose information that could impact short-term financial performance, there is a significant call for more comprehensive disclosures to help investors make informed long-term decisions.

The research uses data from countries with mandatory ENS disclosure to analyze its effects on institutional investment and firm behaviors. Key findings include:
1. **Increased Institutional Ownership**: Following the introduction of disclosure regulations, institutional ownership in firms rises by about 1%. This video video suggests that institutional investors do indeed prioritize companies with better transparency regarding ENS matters.
2. **Shifts in Firm Investment Policies**: Firms also adjust their investment strategies, with a notable 5% increase in research and development expenditures on innovative projects post-disclosure. This video video indicates a pivot toward longer-term investment without decreasing overall spending.
3. **Increased Equity Issuance**: There is a 15% increase in equity issuance among firms mandated to disclose, suggesting that better disclosure reduces adverse selection problems in financing.

Overall, the study concludes that ENS disclosures are financially material, address information asymmetry in markets, and help attract a specific type of environmentally and socially conscious investor. It argues for the importance of standardized disclosure regulations to mitigate these issues and enhance market efficiency. The insights highlight the transformative potential of non-financial disclosures for both investors and companies.