SEC Oversight on Climate-Related Disclosures [*]

Huiyun Cong
Capital University of Economics and Business
huiyun.cong@cueb.edu.cn

Xiao Li
Central University of Finance and Economics
afxiaoli@cufe.edu.cn

Lixin (Nancy) Su
The Hong Kong Polytechnic University
nancy.su@polyu.edu.hk

Mengdi (Mendy) Zhang
The Hong Kong Polytechnic University
mengdi7.zhang@connect.polyu.hk

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[*] We thank Susan Shu and seminar participants at Dongbei University of Finance & Economics, Singapore Management University, and The Hong Kong Polytechnic University for valuable comments.

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ABSTRACT

We investigate the consequences of SEC comment letters about climate change disclosure between 2021 and 2022. Using the bigrams developed by Sautner et al. (2023a), we find that firms enhance their disclosure of climate change risks in subsequent 10-K filings. The effect is more pronounced for firms with higher levels of climate change exposure or experience a greater negative market reaction upon the SEC's publication of the comment letter after its resolution. We also document reductions in divergence between 10-K filings and CSR reports as well as environmental rating disagreement among various ESG rating agencies. To comply with the disclosure requirements specified in the comment letters, firms demonstrate a proactive response by making more human capital investments in green talents. Our study provides empirical evidence on the materiality disagreements of climate-change-related disclosures between the SEC and the firms and suggests that the SEC's oversight through comment letters mitigates such divergence.

JEL Classification: M41; K22; Q54

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