

Discussion of CSR Disclosure and the Choice between Public Debt and Bank Debt

by

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The Idea: Effect of CSR Reporting on Debt Choice

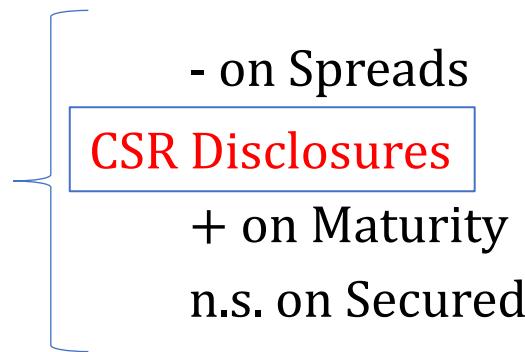
Probit Regressions:

- Public Debt vs. Bank Debt



OLS Regressions:

- Loan/Bond Spread
- Loan/Bond Maturity
- Secured debt



What is Included in CSR Reports?

- Social Disclosure Components
 - Safety metrics
 - Employee metrics
 - Supply Chain and Community metrics
- Environmental Disclosure Components
 - Energy metrics
 - Water metrics
 - Waste, materials used and packaging metrics
 - Air emission metrics
 - Other environmental metrics

Comments on Research Questions

- CSR Reporting (a) reduces information asymmetry, (b) signals high managerial integrity and (c) signals corporate sustainability.

1. Information Channel

- What additional information are CSR reports providing that is of relevance to lenders?
- And why do public debtholders care about CSR disclosures more than bank lender?

2. Managerial Integrity (?)

3. Corporate Sustainability (?)

Main Concerns

- Establishing Mechanism
 - Do CSR disclosures affect:
 - Default risk
 - Debt-related agency costs
 - Information costs - thus reducing screening and monitoring costs for lenders.
 - These mechanisms need to be articulated and tested.
 - Important to understand what is driving the effect of CSR on debt choices.

Are the Effects Causal?

- Establishing that the effects are causal:
 - State Constituency
 - Couldn't they directly affect debt choice
 - Historical average CSR disclosure in each firm's industry
 - Industry average CSR would pick up correlated industry variables that directly affect the choice of debt issue

Additional Tests

- What is the effect of CSR on:
 - Overall firm leverage: Does the leverage increase?
 - Debt rating: Does the rating go up?
 - Bond liquidity: Are the bonds more liquid?
 - Credit Default Swaps: What are the CDS spreads?

Measuring Higher Commitment to Financial Reporting Quality

- Commitment to higher “financial reporting quality”
 - Abnormal accruals (?)
- Commitment to higher levels of financial statement verification:
 - Excess Audit Fees (?)

Economic Magnitudes

- Table 2:
 - Moving from the lowest to highest quintile increases the likelihood of public bond issue by 14.4%.
- How does it compare to accounting and financing disclosures?

Conclusion

- Important research question.
- Carefully done.
- More effort on identifying the mechanism would greatly benefit the paper.