Discussion of

CSR Disclosure and the Choice between Public Debt and Bank Debt

by

Vidhan K Goyal
HKUST
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The Idea:
Effect of CSR Reporting on Debt Choice

Probit Regressions:

- Public Debt vs. Bank Debt

+

CSR Disclosures

Accounting Quality +

Financial Disclosure Policy +

Other Controls

OLS Regressions:

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

\- on Spreads

CSR Disclosures

\+ on Maturity

n.s. on Secured

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.