Doctoral contract 2022

Up to recently, the main document corporations have been using to inform investors has been the traditional corporate annual report, which focuses on financial statements and the interpretations of the firm’s annual financial performance. The content and format of the financial data provided in this report is largely constrained by the regulator’s choice (GAAP in the US and IFRS in the rest of the world) which results in standardized, comprehensive and comparable information. This is valuable both to external analysts, and to issuers, as it reduces the difficulty and the costs of preparing and assuring the corporate annual report.

However, the growing awareness of the environmental and social consequences of firms’ activities have progressively induced them to report extra-financial information in addition to traditional financial reporting, including standalone sustainability reports, sustainability data reports or climate-related financial risk disclosures. As for now, regulators in most countries tend not to prescribe a particular approach regarding the reporting format, and let companies more or less free to choose whichever extra financial standards and reporting framework they wish. This results in the types and quality of extra financial reporting ranging enormously. Moreover, CEOs are left with having to decide what disclosures to make, ESG investors must cope with comparability issues and other stakeholders suffer from high information asymmetries issues.

Over the past decade, in order to remedy these issues, many benchmarks (CDSB Climate Disclosure Standards Board, GRI Global Reporting Initiative, IIRC International Integrated Reporting Council, SASB Sustainability Accounting Standards Board...) and some regulations have been developed to guide companies in the preparation of extra-financial reporting. Regarding the number of practices and benchmarks currently used, the need to harmonize non-financial information disclosed by companies has not significantly receded, which recently induced regulators to take bolder initiatives. At the European level, in July 2021, the European Commission entrusted EFRAG (the European Financial Reporting Advisory Group) to build a common framework for non-financial reporting based on three themes: environment, social and governance. At the international level, in November 2021, the IFRS Foundation announced the creation of the ISSB (International Sustainability Standards Board) to develop a non-financial reporting framework similar to the international accounting...
framework. For the EU, the deadlines are very short with a first partial implementation as soon as year 2023.

Similar to the introduction of IAS/IFRS in the early 2000s, the implementation of a harmonized extra-financial reporting framework is opening up a new field of research. The research on non-financial reporting is extensive. Scholars have analyzed the determinants of the extra-financial information disclosure decision (Cormier and Magnan 2003), the impact of extra-financial disclosure on market value (Matsumura 2014, Benlemlih et al. 2021) or on the cost of implied equity capital of firms (Clarkson et al. 2013, Dhaliwal 2014). Other scholars focus on the companies’ response strategies to a change in the regulatory framework (Depoers and Jérome 2017), insisting on the fact that the ongoing standardization process of extra financial disclosures should improve the reliability and comparability of extra-financial data and thus increase its usefulness for stakeholders.

This doctoral contract aims at studying the impact of the standardization of extra-financial information from both the investor and the company’s point of view. It will address questions such as the following: How will the new framework be institutionalized in firms? Will it impact the company's activities by changing the criteria for choosing investments (from the company's point of view)? Will the standardization improve the quality of non-financial information (from an investor perspective)? From a methodological point of view, several complementary methods can be used: qualitative approaches (e.g. interviews to understand the implementation of the new standard or the firms' response strategies) and quantitative approaches (e.g. regressions, event studies).

INDICATIVE REFERENCES: