

Valuating companies based on climate risk response

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Investor and government attention to climate-related issues is rising. However, how to assess, mitigate, and hedge climate risk remain a major challenge to industry and researchers.

In the paper "Corporate Climate Risk: Measurements and Responses," Vincent Yao of the Department of Real Estate, along with co-authors from the University of Florida and Fordham University, constructed a measure that can be used to quantify [climate](#) risk exposure at the firm level as well as how companies can respond to the rising climate risk by conducting a textual analysis of earnings call transcript data for U.S. public companies.

This climate risk measure, covering both physical and transition risks, can be easily adopted by the [investor](#) community and has been reviewed by financial services companies like Goldman Sachs. The paper has been accepted for publication in the *Review of Financial Studies* and is [available](#) on the SSRN server.

The research by Yao and colleagues reveals that companies facing high transition risk, especially those that do not respond to climate risks proactively, have been valued lower in the equity market in recent years. By contrast, companies that proactively respond to climate risks are valued higher. The paper also documents differences in how companies respond through investment, research and development, green innovation, and employment when facing high climate risk exposure.

Since most companies do not voluntarily respond to climate risks—they are forced to do so either by the government or by the market—as this kind of measurement model is adopted by more [financial firms](#), companies are going to be forced by the market to address climate risks more proactively. The research findings by Yao and co-authors underscore the importance of disclosing climate risks in a transparent and comprehensive manner, ensuring investors have access to [accurate information](#) and can make informed [investment decisions](#).

Provided by Georgia State University

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