Gas, Guns, and Governments: Financial Costs of Anti-ESG Policies

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The paper

- Research question
  - What is the impact of anti-ESG policies on financial outcomes?
- Setting
  - Anti-ESG laws leading to ‘quasi-exogenous” and unexpected variation in the Texas municipal bond market.
- Empirical design
  - Diffs-in-diffs exploiting within Texas variation in municipality level exposures to exiting banks (“sticky” relationships).
- Main findings
  - Issuers that rely *ex-ante* more on the five exiting banks face: i) higher propensity to negotiate a bond issue ii) higher offering yields.
- Channels
  - Decrease of competition.
  - Deterioration of underwriting and loss of access to nation-wide distribution channels.
- Implications
  - Increase of municipal debt servicing costs.

The Texas laws

- SB13 prohibits investment in financial companies and contracts with companies that boycott certain energy firms: filled 11-Mar 2021.
- SB 19 prohibits contracts with companies that discriminate against fire arm and ammunition industries: filled 3-Mar-2011.
- Both SB13 and SB19 were signed by governor on 14-Jun-2021 and became laws on 1-Sep 2021.
- Both bills require companies (above a firm and deal size) that contract (for goods or services) with Texas governmental entities to provide written verification of their statements.
- The authors identify five (large) banks that *de facto* exited the Texas municipal bond underwriting market after enactment of these laws.

Overview of discussion

- Some empirical design choices deserve further explanation.
- Discussion of results could benefit from including the volume response.
- Suggestions for potential extensions.

A few comments on the empirical methodology

- Time trend in the share of negotiations within the regression horizon?
  - Consider providing a figure for the negotiated share for affected and non-affected municipalities around 1-Sep 2022.
- Sep-2019 ok for seasonality but not anticipation. Placebo test for the original filling (Mar-2021) or signing (Jun-2021) dates.
- Consider alternative windows for defining the targeted share.
  - Current setting assumes that issuers will rely on the same banks for 5 years. Is it supported?
- Control separately for the targeted share and not only as interaction with the treatment variable (post). Not clear if the regressions with the triple interaction terms include also the individual or double interaction terms.
- Channels: what about bid-cover ratios?

Discussion could include impact on quantities

- Results: no statistically significant impact on the intensive and extensive issuance margins.
- Discussion focuses on decrease of competition and loss of distribution channels: but issuers are able to maintain issuance volumes.
- The paper could benefit from covering more the effect on volumes and providing some explanations.
- Issuance demand can be inelastic, especially if issuers use it to fund recurring needs or to roll-over debt.
    - If possible distinguish pure new issuance or issuance related to financing new investment/consumption from "roll-over" issuance.

Potential extensions

- Significant impact on the cost of borrowing, but what about effect on "real outcomes"?
- You could consider studying:
  - The impact on municipal investment and consumption at the municipality or state level.
  - Study the impact on different types of municipal issuers (not only as FE): PostXTargeted_ShareXType_Borrower.

Final comments

- A pleasant read on a policy relevant matter.
- A significant contribution to the ESG literature.
- Overall, well executed with a number of robustness checks to alleviate the main caveats.

Thank you!