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Do Investors Care about Carbon Offsets?

#### Abstract

We examine how investors respond to firms' carbon offset strategies in voluntary carbon markets. Following the retirement of carbon offsets, we find a positive market reaction, with a cumulative abnormal return of 1.1% over 15 trading days. The market response is driven by the quality of offsets rather than their quantity. High-quality offsets, such as removal offsets and recent vintages, generate positive stock market reactions, while the quantity of offsets retired has no significant effect. Additionally, we find that during periods of abnormal temperature changes, which heighten the salience of climate-related actions, firms are more likely to increase high-quality offset retirements. Our results are consistent with a signaling framework, where high-quality offsets serve as credible signals of a firm's genuine commitment to sustainability.