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GREEN FINANCE POLICY, ESG RATINGS AND FINANCIAL RISK

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Abstract

The promulgation of Trump's trade policy had a greater impact on China's overall economy, and policy uncertainty would increase with the election of the new president Joe Biden. A higher level of economic and policy uncertainty may cause extensive financial risk. In addition, the promotion of environmental performance, social responsibility, and corporate governance (ESG) ratings are increasingly becoming the consensus of multinational green financial institutions, investors, and governments, as evidenced by the increasing number of ESG scoring systems and databases developed in recent years. After the full implementation of the Green Credit Guidelines (GCG) policy by the Chinese government in 2014, all environment-related firms, especially listed firms, had to be concerned about their ESG information disclosure. Based on the difference-in-difference (DID) approach, this study empirically examined the impact of the green finance policy on ESG scores and financial risk within the green economy. We applied a fixed effect (FE) model to analyze static panel data to test the impact of financial risk on ESG indices, with a general method of moments (GMM) two-step system in the dynamic panel to perform the benchmark regression. We also further evaluated the moderating effect of patent lifespan and internal controls. Our empirical results indicate that; 1) GCG policy significantly improved the ESG scores and reduced the financial risk of green enterprises; 2) financial risk negatively affected ESG ratings in Chinese listed companies; 3) the maintenance period of patents and internal controls could significantly moderate financial risk, with a negative interaction, and help enterprises with profitable operations to improve their ESG ratings.

Key words: ESG ratings, financial risk, green credit policy, internal control, patent lifespan

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