

"CLIMATE RISKS AND DEBT STRUCTURE"

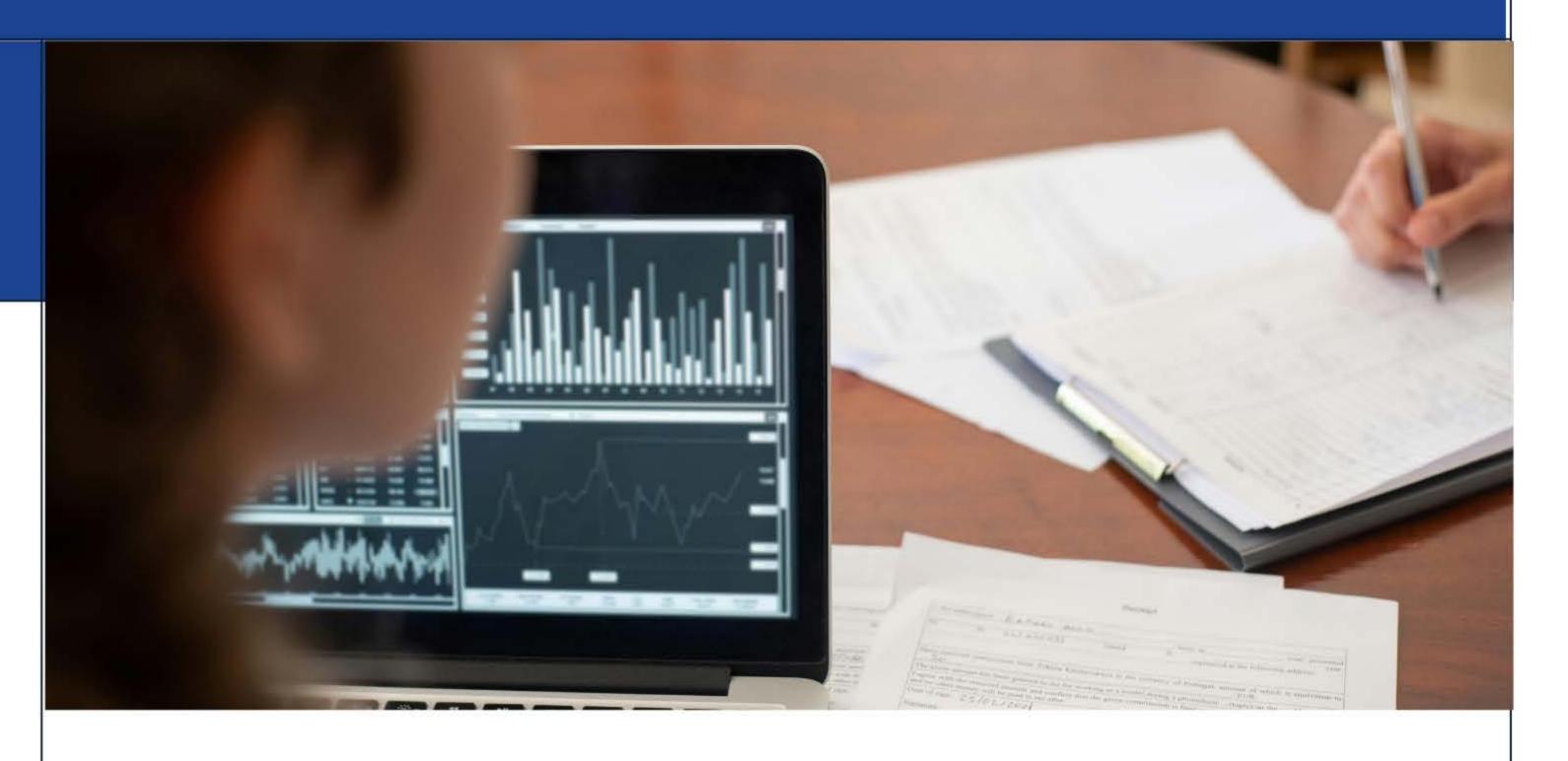
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EXECUTIVE SUMMARY

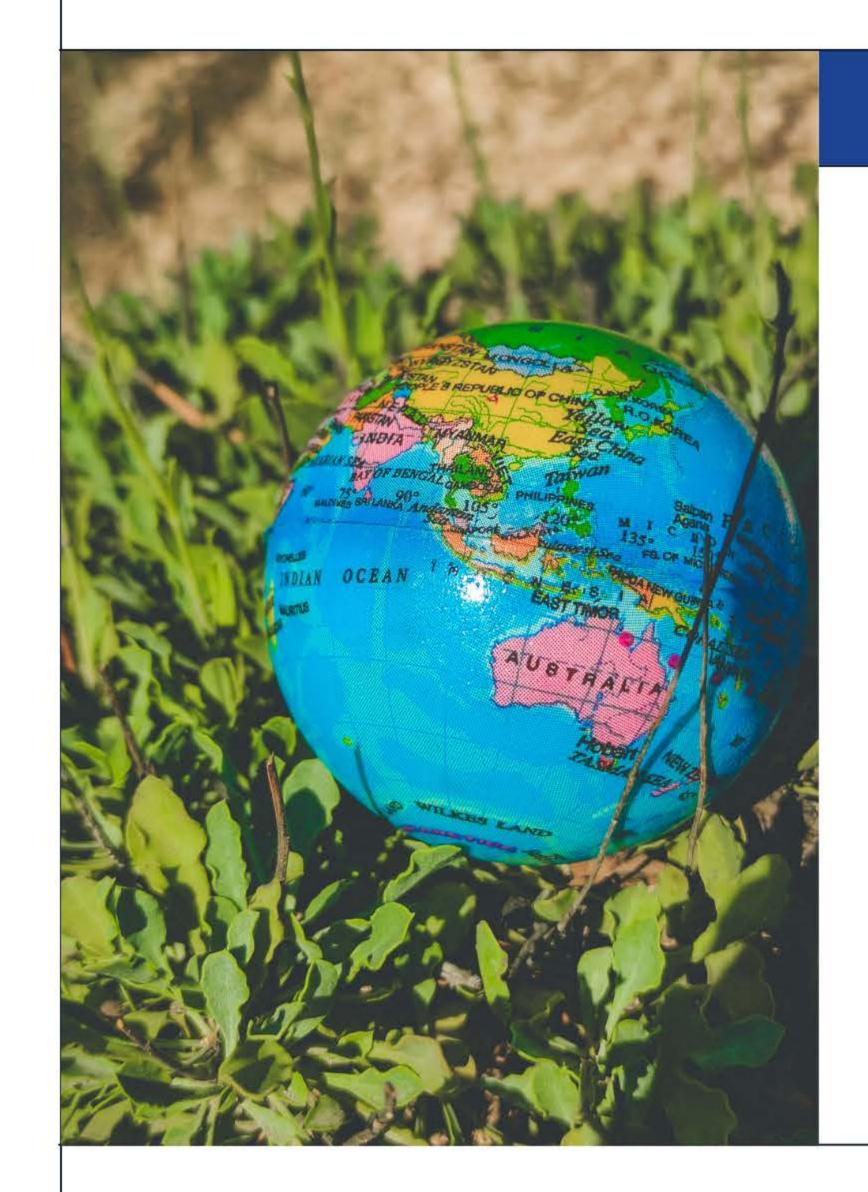
This paper examines the impact of climate risks on the debt structure of a sample of U.S. firms from 2002 through 2020. Climate risks—mainly physical, regulatory, and transition risks—are associated with a concentrated debt structure for the affected firms. However, when climate risks propagate through the channels of expected bankruptcy costs and sustainability, they are associated with a more diversified debt structure.

Additionally, climate risks asymmetrically impact the relationship between access to finance and debt structure. Results from a quasinatural experiment reaffirm the impact of climate risks on debt structure.



KEYWORDS

- Corporate debt
- Debt structure
- Climate change
- Corporate social responsibility



RESEARCH RELEVANCE

- Firms with greater capital assets that have alternative uses tend to have more diversified debt structures.
- Climate risks distort the relationship between credit ratings and debt structure. Among top-rated firms, climate risks are associated with greater debt diversification, whereas mid-rated firms show the opposite trend.
- Sustainability initiatives, such as corporate social responsibility (CSR) activities and strong environmental, social, and governance (ESG) ratings, help climate risks-affected firms to diversify their debt structure.
- The findings offer actionable insights for firms seeking to manage the financial implications of their climate risk exposures more effectively.

BIBLIOGRAPHIC INFORMATION

Francis, B. B., Hasan, I., Jiang, C., Sharma, Z., & Zhu, Y. (2025). Climate Risks and Debt Structure. British Accounting Review. Advance online publication. https://doi.org/10.1016/j.bar.2025.101614

"This study finds that climate risks, primarily physical, regulatory, and transition risks, influence firms' debt structures and the effects operate through three main channels: bankruptcy costs, access to finance, and corporate sustainability."

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